

**COMMONWEALTH OF MASSACHUSETTS
PENSION RESERVES INVESTMENT MANAGEMENT BOARD**

*Minutes of the August 15, 2017 Board Meeting
commencing at 9:33 a.m.*

**in the
PRIM Board Offices
at 84 State Street
Boston, Massachusetts**

*PRIM Board Meeting Minutes of 8/15/2017
For Approval at the November 2017 Meeting*

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D O C U M E N T S*

- A. Minutes of the PRIM Board Meeting of May 16, 2017
- B. PRIT Fund Performance Report
- C. BNY Mellon Gross of Fees Performance Report
- D. Executive Director and Chief Investment Officer's Fiscal Year 2018 Proposed Goals & Objectives
- E. Executive Director and Chief Investment Officer's Fiscal Year 2017 Board-Approved Goals & Objectives
- F. Real Estate and Timberland Performance Charts
- G. Proposed 2018 PRIM Board and Committee Meeting Schedule
- H. Recommendations from 2016 PRIM Board Self-Evaluation
- I. June 2017 PRIM Operating Budget
- J. Travel

*Referred to and/or used at the meeting and retained at the PRIM Board offices

A T T E N D E E S

Board Members

- Treasurer Deborah B. Goldberg, Chair
- Robert L. Brousseau
- James B.G. Hearty
- Dennis J. Naughton
- Paul E. Shanley, Esq.

Other Attendees:

- Chandra Allard, Treasury
- Patrick Brock, Admin & Audit Committee Member
- Michael DeVito, PERAC
- Hugh Drummond, O'Neill and Associates
- Corina English, Hamilton Lane
- Constance Everson, Investment Committee
- Nick Favorito, MSRB
- Richard Lourenco, WCVB-Channel 5
- Rico Oyola, SEIU
- James Quirk, Barnstable Retirement
- Millie Viquera, Callan
- Darren Wolf, Aberdeen

P R O C E E D I N G S

A meeting of the Pension Reserves Investment Management Board (PRIM Board) was held on August 15, 2017, at the PRIM Board offices located at 84 State Street, Boston, Massachusetts.

Call to Order:

The meeting was called to order and convened at 9:33 a.m. Treasurer and Receiver-General Deborah Goldberg chaired the meeting.

TREASURER GOLDBERG: I'm going to call the meeting to order.

And so before we begin, the Massachusetts Open Meeting Law permits meetings to be recorded and states that the chair shall inform attendees at the beginning of the meeting of any such recordings. So accordingly, I am informing you all that Virginia Dodge, seated here to my left, is transcribing and also recording this meeting.

If anyone else in attendance today is recording the meeting, I would ask that you identify yourself.

MR. LOURENCO: Richard Lourenco, WCVB Channel 5.

TREASURER GOLDBERG: Thank you.

1 Also for the benefit of our stenographer
2 and all those who are listening, please identify
3 yourself by name and speak clearly and audibly.

4 Did you get that name?

5 THE COURT REPORTER: Yes. Thank you.

6 TREASURER GOLDBERG: Okay. Thank you. All
7 right then.

8 MR. TROTSKY: We have a consent agenda.

9 TREASURER GOLDBERG: Yes. We have a consent
10 agenda here. And it will begin with the approval
11 of the PRIM Board minutes of its May 16, 2017
12 meeting.

13 MR. TROTSKY: We take them all at once.

14 TREASURER GOLDBERG: And the approval of the
15 issuance for request for proposals for risk
16 measurement systems and advisory services, and
17 approval of the issuance of a request for
18 proposals for private real estate investment
19 management services, and further to authorize the
20 executive director to take all actions necessary
21 to effectuate this vote.

22 Is there a motion?

23 MR. BROUSSEAU: So moved.

24 TREASURER GOLDBERG: Is there a second?

25 MR. SHANLEY: Second.

1 TREASURER GOLDBERG: Dave, would you like to
2 explain this?

3 MR. GURTZ: Sure. Consent agenda items so we
4 can talk about more important things later on.
5 These three topics are relatively routine items,
6 so to speak. So we've got the minutes obviously.
7 We've got two requests to issue to RFPs, one being
8 a risk measurement system and another one being
9 for the core real estate services.

10 So again, routine nature. And if
11 there's any questions, I'm happy to answer them.

12 TREASURER GOLDBERG: Any questions on behalf
13 of the members of the board?

14 Seeing none, we have a motion. We have
15 a second.

16 All those in favor?

17 BOARD MEMBERS: Aye.

18 TREASURER GOLDBERG: Any opposed?

19 Seeing none, it passes unanimously.

20 **(VOTED: To approve the Consent Agenda.)**

21 MR. GURTZ: Thanks.

22 TREASURER GOLDBERG: Thank you, Dave.

23 Everyone should have received and
24 reviewed the executive director's fiscal year 2018
25 goals and objectives.

1 MR. TROTSKY: No. We've gone to my report.

2 TREASURER GOLDBERG: Then why do I have --

3 MR. TROTSKY: Here's your agenda.

4 TREASURER GOLDBERG: Okay. Sorry about that.
5 Cancel that thought.

6 We will go to Roman numeral II,
7 Executive Director/Chief Investment Officer
8 Report.

9 MR. TROTSKY: Thank you. And we'll get to
10 item 3 soon enough.

11 TREASURER GOLDBERG: We want to discuss it.

12 MR. TROTSKY: Thank you all for coming in
13 August. I know it's not easy for everybody, but I
14 appreciate you making the effort, especially those
15 not on the board who are on our committees.

16 Connie is here, Connie Everson on the
17 Investment Committee. Glenn Strehle on the
18 Investment Committee.

19 We have Patrick Brock, who's not only a
20 client, but also on the Admin and Audit Committee
21 and Comp Committee. Thank you for coming all the
22 way from Hampshire County.

23 Retirement systems, also James Quirk
24 represents -- what is it? 11 different retirement
25 systems.

1 MR. QUIRK: Ten.

2 MR. TROTSKY: Ten. I'm sorry. Ten.

3 And then Nick Favorito. I think I saw
4 Nick from the Mass. Retirement System. And Mike
5 DeVito from PERAC.

6 So thank you all for coming and welcome.

7 I'll repeat most of my remarks from the
8 committee meetings. Some of you have already
9 heard it. And those around the table have already
10 heard my remarks at either one or two committee
11 meetings.

12 TREASURER GOLDBERG: Or three.

13 MR. TROTSKY: So I will deliver these remarks
14 in summary fashion today. A more detailed version
15 of these remarks can be found at your expanded
16 agenda. Please take the time to read it. It does
17 recap what I think was a great year. And if you
18 have any questions, please be in touch with me.

19 But first, I want to congratulate my
20 administrative assistant, Amaran Soja. She was
21 married on July 29, and we wish her and her new
22 husband --

23 Have you gotten used to saying "husband
24 James"? It takes a while to remember.

25 We wish you well in your future

1 together.

2 Unfortunately, as I already announced,
3 Amaran is leaving PRIM to take a position with a
4 new law firm that several friends of hers are
5 forming, and they're forming it right here in this
6 building.

7 So you're not going far. And you've
8 been very gracious with your time in transition.

9 Today is actually Amaran's last day.
10 She was very kind enough to extend her time with
11 us through today to make sure the transition to
12 Grace, who you've all met, goes smoothly.

13 So we thank you for that transition,
14 also for your two and a half years here, dedicated
15 service to me and to PRIM. We'll miss you a lot
16 and wish you luck. So you're not going far.

17 And of course we're pleased to announce
18 that Grace Mamo -- Grace is in the corner -- will
19 replace Amaran as my executive assistant.

20 As you know, Grace earned her bachelor's
21 degree from the University of Rhode Island, worked
22 at a Boston law firm as a paralegal, at the New
23 England Baptist Hospital helping run a nursing
24 unit, and at the Mass. Eye and Ear Infirmary as a
25 practice coordinator and research assistant.

1 You've all helped me welcome Grace.
2 She's off to a great start, and you'll see more of
3 her at these meetings.

4 Next, this is new news since the last
5 time we met. I'm pleased to announce that Alyssa
6 Fiore on the private equity team, we learned last
7 week passed level 3, the last section of the CFA
8 exam.

9 And now that she has four years of
10 experience in the investment management industry
11 and having passed level 3, she's a new chartered
12 CFA holder. So congratulations.

13 And I know that's a lot of hard work.
14 It always came at a bad time. You take those
15 tests right after Memorial Day weekend, if I
16 remember, and I always resented that.

17 So thank you for that effort, and you're
18 off to a great start here at PRIM. How long has
19 it been?

20 MS. FIORE: Almost a year in October.

21 MR. TROTSKY: It seems like longer. So
22 you're off to a great start, doing great work on
23 the private equity team.

24 MS. FIORE: Thank you.

25 MR. TROTSKY: I also introduced at the

1 committee meetings our five new summer interns.
2 They're an exceptional cohort this year. They're
3 also doing a great deal of work. I'm going to
4 share something in an email, a piece of research
5 they did, later this week. They're doing great
6 work, and we're delighted to have them as well.

7 We've already reviewed that fiscal 2017
8 was an exceptionally strong year for PRIM. The
9 PRIT Fund returned 13.2 percent gross for the
10 year, 12.8 percent net. On a net basis, that's
11 80 basis points above benchmark. And six of the
12 seven major asset classes outperformed their
13 benchmarks.

14 I've mentioned for the first time in
15 several years, international equities outperformed
16 domestic equities, though all equities are up
17 strongly. And because of our high exposure to
18 international equities, emerging markets and
19 developed markets, that served us well in the
20 fiscal year.

21 Elsewhere, private equity returned
22 21.3 percent for the year. That's a fantastic
23 result, Mike, and a tribute to you -- both Mikes,
24 Mike McGirr, Mike Bailey, and Alyssa -- for your
25 great work there. That's a great performance.

1 Not far behind, global equities returned
2 20.9 percent. Sarah, great job, you and your team
3 as well. Particularly in some of the new areas of
4 emerging markets that did really well on the
5 equity side. So great job.

6 Value-added fixed income returned
7 10.3 percent. Hedge funds, which I'll talk about
8 a little bit more, up 9.4 percent, net of fees.
9 Real estate and timberland performed well,
10 returning 6.8 percent and 8.3 percent,
11 respectively, for the fiscal year.

12 And as is our custom, each asset class
13 head will review a little bit more about their
14 asset class during their remarks.

15 Quickly, we completed our first-ever
16 direct real estate acquisition, acquiring 21 acres
17 of prime office space land in Santa Clara,
18 California. So Project SAVE is alive and well.
19 That acquisition will save over \$11 million in
20 fees over its lifetime.

21 We have also launched Project SAVE
22 Phase II, which is a careful deployment of direct
23 investing, like the real estate deal in
24 California. Phase II is under Mike Even's
25 insightful supervision. And we're likely to come

1 back to you with some incremental ideas on that.

2 So again, the PRIT Fund returned
3 13.2 percent gross, 12.8 net, and it's extremely
4 strong competitively. This is also some new news
5 since the last time we met. We received the peer
6 group rankings, and we're very pleased with our
7 performance, particularly because we have been
8 systematically derisking our portfolio over the
9 last few years, but still, even with a portfolio
10 that's only 40 percent global equities, for the
11 one-year period, we're firmly in the top third of
12 all funds. In fact, we were in the 31st
13 percentile. We're pleased with that.

14 More importantly, for the three-year
15 period, we're in the top 16 percent of all funds.
16 So that's very good. Remember, we were I think
17 around the number 1 performing fund last year in a
18 tough environment.

19 And for the five-year period, we're in
20 the top 22 percent of all funds. So really good
21 competitively. I feel very proud of that fact.
22 The 10-year number is still quite low as we work
23 off the hangover from the global financial crisis.

24 Over the past few years, as I've
25 reviewed, we have reengineered our hedge fund

1 portfolio, reengineered the fixed income portfolio
2 and added significant risk-reducing strategies
3 such as agriculture, blueberry fields in Michigan,
4 if you remember.

5 The put spread collar option strategy
6 and alternative risk premia harvesting strategy,
7 all designed to reduce the risk profile of our
8 portfolio.

9 I want to particularly highlight that we
10 have reached an important milestone in the hedge
11 fund portfolio under Eric Nierenberg's
12 supervision. Now more than 50 percent of our
13 direct hedge fund portfolio is invested in
14 separately managed accounts. That provides
15 improved transparency, more control and lower
16 fees, often half the rack rate than commingled
17 fund format that had been the norm in the past.

18 Many in the nation are now following our
19 lead. We should all be proud of Eric and the
20 hedge fund group here at PRIM because we are a
21 recognized leader. When several are giving up on
22 hedge funds, I think our hedge fund program is
23 quite successful.

24 And as a great example of our attention
25 to risk, the hedge fund portfolio returned

1 9.4 percent, net of fees. That's over 3 percent
2 above benchmark.

3 But more importantly, we had a realized
4 volatility of approximately 1.5 percent.
5 1.5 percent realized volatility combined with a
6 return of 9.4 percent made hedge funds the
7 number 1 performing asset class on a risk-adjusted
8 basis, so the highest risk-adjusted return in the
9 entire PRIM portfolio. 1.5 percent volatility of
10 any asset class. 1.5 percent volatility is less
11 than even bonds.

12 So not too many people appreciate that
13 about hedge funds. We're using hedge funds in the
14 true sense of the word "hedge," to hedge our
15 equity risk exposure. And it's working.

16 In February, the board approved a new
17 asset allocation based on the triennial
18 comprehensive liabilities research conducted by
19 PRIM staff and our consultant. We maintained the
20 equity allocation at 40 percent, while
21 implementing a put collar spread strategy, which
22 essentially increases equity exposure with lower
23 volatility.

24 We increased private equity from
25 10 percent to 11 percent, as you know. We

1 repositioned core fixed income to mitigate
2 potential inflation and interest rate risk. We
3 redeployed the value-added fixed income
4 investments to introduce other credit
5 opportunities.

6 And the team is working very hard on
7 those opportunities. Just had a preview late last
8 week. They're doing great work. I'm excited at
9 what they're doing.

10 We combined hedge funds and portfolio
11 completion strategies into a single allocation to
12 focus on diversifying strategies. And we believe
13 all of these changes will enable our portfolio to
14 perform well in all market environments.

15 And as Connie and I discussed earlier in
16 the week, we're seeing some changes this month in
17 the volatility of the markets, for example. The
18 VIX really spiked this month as we had a bit of a
19 selloff and now a rebound. So volatility is
20 increasing.

21 Those are a few important highlights of
22 our investment program, really characterized by
23 solid results, a careful focus on returns, risk
24 and costs. I always talk about how it's important
25 to focus on three when evaluating any investment

1 opportunities.

2 You have to look at returns. You have
3 to look at cost. And you have to look at risk.
4 Too many people in this industry, especially in
5 years like we just had, are tempted to solely
6 focus on return without much regard to cost and
7 risk. So we are focused on all three.

8 Once again, I'm pleased to report that
9 organizationally fiscal 2017 was another
10 outstanding year. No senior-level employees
11 departed.

12 And consistent with board-approved
13 hiring plans, we filled seven key staff vacancies
14 with top talent. We're now fully staffed with
15 exceptional investment and finance professionals.

16 And the greatest compliment of all is
17 that all our job postings attract literally
18 hundreds of applications. We had seven job
19 postings last year, and it attracted nearly
20 1500 applicants. So like I have said before,
21 there's no greater compliment that we can all
22 receive, when the best and brightest from around
23 this area and outside of this area are applying to
24 work here at PRIM.

25 We also announced a multi-year staff

1 hiring plan in each functional area to ensure that
2 we are appropriately resourced going forward. As
3 I've mentioned to a few of you around the table,
4 we're very lean. Most other plans of our size
5 have many more employees and a large staff to
6 carry out what we do. We have never been
7 stronger, but retention of key employees remains
8 my primary concern.

9 As you know, the employment environment
10 in the nation and in the region is very strong.
11 There are opportunities for our employees outside
12 of PRIM, and we work on that. We're aware of it.
13 We see it. I spend more and more of my time on
14 retention issues.

15 And all of us around the table have to
16 ensure that we provide a challenging and rewarding
17 opportunity for all of our employees and that we
18 provide a culture and a work environment that's of
19 value to employees. And I think we do a good job
20 of that right now.

21 To that end, in May, we announced a
22 series of personnel moves on the investment team.
23 And I want to be sure to say that this year, we'll
24 look for similar opportunities for other deserving
25 members on the investment staff and on the finance

1 staff. This room is full of people who deserve
2 opportunity, promotion and challenges, and I can't
3 get to everyone every year, but I intend to get to
4 everyone who deserves it over time.

5 To recap the moves, Eric Nierenberg was
6 named PRIM's chief strategy officer. Sarah
7 Samuels will add responsibility for hedge funds to
8 her current responsibilities overseeing public
9 markets and investment research and as our deputy
10 chief investment officer.

11 And Michael Bailey will be the second
12 person -- Sarah was the first -- the second person
13 to take part in PRIM's Professional Development
14 Program, the rotation program, which will rotate
15 Michael through different asset classes.

16 So the organization has really never
17 been stronger or more innovative in the investment
18 area, but also in the finance and legal and
19 operations area. Again, we were awarded the GFOA
20 Certificate of Excellence for our CAFR, our
21 Comprehensive Annual Financial Report. That's for
22 the completeness and transparency of our financial
23 reporting.

24 As a result of our outstanding legal
25 successes, our general counsel, Chris Supple, has

1 been reappointed to a second term as cochair of
2 the Securities Litigation Committee of NAPPA, the
3 National Association of Public Pension Attorneys.

4 This time, correct me if I'm wrong, but
5 you're the sole chair. So no longer a cochair.
6 Is that correct?

7 MR. SUPPLE: That's what they tell me.

8 MR. TROTSKY: So congratulations on that.

9 And those two honors just really scratch
10 the surface. Usually at these meetings, I'm able
11 to recap a few things our staff has won or the
12 plan has won. So I'm very, very proud of that.

13 Our investment program, as you know, is
14 trend-setting, but without -- and I've said this
15 before and I can't say it frequently enough, but
16 without the finance staff and legal staff running
17 in lockstep with our investment program, none of
18 this success would be possible.

19 They're a group of consistent enablers.
20 They never say no. They say yes. They say, "Yes,
21 we can do that investment. Yes, we'll figure it
22 out." It's really quite a luxury to have that.

23 That is no easy task, especially
24 considering the fact that with over a hundred
25 clients, we're unique. Over a hundred clients

1 expertly supported by Paul Todisco in the corner,
2 our senior client services officer, and his staff.

3 We already have one of the most complex
4 accounting and reporting structures in the
5 country. We're like a gigantic complex mutual
6 fund in terms of accounting and reporting.

7 We have the great luxury of this group's
8 professionalism and expertise. And I think we all
9 want them to know that we don't take them for
10 granted. And sometimes we do take them for
11 granted. The reports are always on time. They're
12 complete. Since I've been there, there's never
13 been a material error in the reporting.

14 So thank you to Dave Gurtz. You do a
15 fantastic job, our COO/CF0.

16 And thank you to Chris Supple also on
17 the legal team.

18 And also the managers. Matt Liposky.
19 Dan Eckman, Deb Coulter, Tony Falzone in IT. You
20 always have us up and running smoothly. And of
21 course Paul Todisco and the entire PRIM operations
22 legal and finance staff. Too many to name here,
23 but you all do a really magnificent job, and we
24 don't take you for granted, so round of applause.

25 Now, on another more personal update --

1 and this is new since the committee meetings. As
2 I've told many of you already, my three-year term
3 as a volunteer governor of the CFA Institute ends
4 this month. It ends at the end of August. I've
5 had a three-year term. And I have decided not to
6 renew for a second term. It's been a lot of work,
7 but I believe the work that I helped complete over
8 the past three years has been useful to PRIM and
9 to the entire investment management industry.

10 And I thank you all, board members,
11 Madam Chair, for allowing me to participate in
12 that.

13 The main project, as you know, that I
14 helped lead was the establishment of the CFA
15 Institute Asset Manager Code of Professional
16 Conduct. And it's been a success.

17 At the CFA, we believe that the asset
18 manager code of conduct has been instrumental in
19 improving ethical conduct in the investment
20 management industry by developing and promoting
21 the code, which is really a guideline of best
22 practices to the investment industry.

23 Quickly, accomplishments include now
24 over 1500 signatories to the code from over
25 50 countries. We've strengthened the code.

1 And I've personally spoken on behalf of
2 the code at numerous conferences, on Webcasts, at
3 society events, CFA society events, including in
4 Boston, and other industry events.

5 And as you know at PRIM, we ask about
6 the asset manager code compliance on all of our
7 RFPs. So I think it helps us to determine how
8 important ethical behavior is within our managers.

9 The code is gaining momentum. You may
10 have seen numerous outreach campaigns, including
11 one at South Station and in very large one-page
12 ads in the *Wall Street Journal*, *Pensions and*
13 *Investments*, including two open letter campaigns.
14 I don't know if any of you saw that, but PRIM was
15 the lead signatory on those, beckoning the
16 industry to adopt the code, to encourage ethical
17 behavior.

18 And while we are the lead signatory and
19 the first adopter of the asset manager code of
20 conduct, other large asset owners have quickly
21 followed suit.

22 So overall, a huge success and a useful
23 and fulfilling experience for me, and I thank you
24 again.

25 I hope in some small way, PRIM, by

1 allowing me to participate on the CFA board, has
2 done its part to improve ethical behavior in the
3 industry. I believe that's the case.

4 Another bit of new news is that my work
5 as a governor on the CFA is nearly complete, but I
6 don't intend to end my relationship with the CFA
7 Institute. And I wanted to announce that the CFA
8 is now developing a best practices guide in much
9 the same vein as the AMC on how to attract, retain
10 and engage diverse workforce and create an
11 inclusive culture for the investment management
12 industry in those organizations participating in
13 the industry.

14 A steering committee is being formed to
15 provide input and guidance to the CFA Institute
16 from practitioners in the field, and I have been
17 invited to join the group. The steering committee
18 is comprised of six or seven individuals from
19 leading asset owners. It's just being formed now.
20 Other confirmed members include CalPERS and
21 CalSTRS, Girls Who Invest, Harvard University and
22 the National Association of Securities
23 Professionals.

24 The CFA Institute aims to create a guide
25 that would be used by investment firms and their

1 executives as a source of clear and actionable
2 guidance on how to deepen diversity within an
3 organization. And as we all know, the investment
4 management industry has its challenges in that
5 regard.

6 The guide will be developed through
7 first a careful examination of existing content on
8 the subject from leading organizations. And then
9 secondly, structured convocations with executives
10 of 30 to 40 companies across four to five cities
11 in North America.

12 It's an exciting new project for the
13 CFA. And they asked me to join because it's
14 really a direct parallel to the work under way
15 with the asset manager code of conduct. Just as
16 the AMC provides useful tools and best practices
17 on promoting ethical behavior within
18 organizations, this guide will provide useful
19 tools and best practices on promoting diversity
20 within organizations in the investment management
21 industry. So I'm happy to be a part of that.

22 And last, I was reelected to a second
23 term on the CFA Society of Boston as a governor
24 there. So I'll continue to work in that regard
25 with both organizations.

1 So thank you again for your allowing me
2 to participate in those outside volunteer
3 activities. I appreciate it.

4 Any questions on that?

5 TREASURER GOLDBERG: Well, the only comment I
6 would want to make is that I would assume that the
7 roundtables that we did, the diversity roundtable
8 could be a helpful starting point on outreaching
9 to businesses in the New England area.

10 I don't know if you have a copy of that
11 report yet, but --

12 MR. TROTSKY: I do have a copy. I know Sarah
13 and others -- Connie, I think you went. A few
14 other people went.

15 And I'll be sure to offer that up.

16 TREASURER GOLDBERG: It will shortcut some of
17 the work.

18 MR. TROTSKY: That would be terrific.

19 TREASURER GOLDBERG: Exactly.

20 MR. TROTSKY: So that's all in terms of
21 organization I have. I was going to run quickly
22 through performance and in an abbreviated fashion
23 what we did at the Investment Committee, so please
24 indulge me.

25 Turning now to markets and PRIT Fund

1 performance, as you know, economic news is
2 encouraging, and the global economy seems to be
3 improving. We've talked about that in a lot of
4 depth. Inflation remains subdued, even as GDP
5 growth in the U.S. rebounded to 2.6 percent in Q2
6 from 1.2 percent revised in Q1. And the labor
7 markets continue to improve.

8 So things clearly have improved.
9 Markets have been reflecting that, and our returns
10 have been strong. Returns in the S&P 500 for Q2,
11 the S&P in the June quarter was up 3.1 percent.
12 Developed international markets were up double
13 that, 6.1 percent. Emerging markets very strong,
14 up 6.3 percent. Diversified bonds for the second
15 quarter ending June, up 1.4 percent. And long
16 bonds are up 6 percent.

17 The calendar year to date also very
18 strong. The S&P up 9.3 percent. Developed
19 international equities up 13.8 percent. As I
20 mentioned, this is the first time in a long time
21 international markets have outperformed domestic.

22 Emerging markets up for the calendar
23 year through June, 18.4 percent. Diversified
24 bonds up 2.3 percent. Long bonds up 8 percent.
25 Everything's working. And that's not always the

1 case when bonds and stocks are both up.

2 July, as you know, was also a strong
3 month. August is flattish across the board, even
4 with the recent selloff.

5 I mentioned at the Investment Committee
6 and we talked about that the S&P 500 trades at
7 18 times its projected earnings over the next
8 12 months. That's around the highest level in
9 13 years, but it's been a lot higher, and some
10 believe it could go higher still.

11 We've talked about how these regimes of
12 higher valuations can last, and you can actually
13 make a lot of money in these periods, but you have
14 to be careful. We've all talked about how periods
15 like this can really last, but they can also end
16 abruptly, and they can turn ugly.

17 And in this kind of environment, we
18 believe that the best way forward is through a
19 diversified portfolio, like the one we've been
20 building here, and I think it will perform well
21 for us in the future.

22 So I'll turn quickly to the performance
23 slides in your deck at Appendix B. Give you a
24 minute to turn to that.

25 Page 1, you can see what performed well

1 and what didn't perform so well for the quarter.
2 Basically everything is positive. The PRIT Fund
3 was up 3.8 percent in the quarter. International
4 equities led the way on the left. You can see
5 long-duration Treasuries also rebounded as yields
6 fell. The 3.8 percent return for the PRIT Fund
7 compares to a 60/40 mix, which was up 3.1 percent.

8 Turning to the next page, page 2, asset
9 class performance summary for the one year. As I
10 mentioned, the PRIT Fund was up 13.2 percent
11 gross, 12.8 percent net. That's versus a 60/40
12 mix, up 11.1 percent.

13 People always forget they can't manage
14 money for free, so the index funds don't have any
15 costs associated with them, and people always
16 forget that. So a 60/40 ACWI mix is a gross
17 number basically. You can't even buy that index
18 or any index like it for free.

19 You can see what did well on the left,
20 emerging markets, private equity, U.S. SMID.
21 Developed international very strong on the right.
22 Duration really sold off.

23 Next page is PRIT Fund performance
24 through June. And you can see again PRIT Fund up
25 13.2 percent, 12.8 percent net. That's an

1 investment gain of 7.7 billion on a net basis and
2 \$480 million of value above benchmark for the one-
3 year period. That's a large amount of money on a
4 net basis, nearly \$8 billion in return for the
5 fund and \$480 million of value above benchmark.
6 Six of the seven major asset classes outperformed.

7 And we do pay benefits to Nick Favorito
8 at the back of the room. And we pay --

9 TREASURER GOLDBERG: He gets all of them.

10 MR. TROTSKY: -- the net outflows -- and the
11 teachers; that's right.

12 And the net outflows to pay benefits for
13 the year was \$1.5 billion.

14 You can see the three-year performance,
15 five-year performance are quite strong, and the
16 10-year performance still reflects the effects of
17 the world financial crisis.

18 Page 4, private equity and global
19 equities led the way, as I've mentioned. And
20 together with hedge funds, those three comprise
21 the largest contributors to PRIM's total
22 outperformance. So private equity, global equity
23 and hedge funds led to the outperformance
24 primarily.

25 Value-added fixed income up 10.3 percent

1 was still quite strong for a fixed income
2 portfolio. You'll see that it's the only major
3 asset class that's lagged for the year. And
4 there's a good reason that we understand.

5 In value-added fixed income, we have our
6 private debt/distressed debt private portfolio,
7 which is quite illiquid. We benchmark that
8 distressed debt, for lack of a better benchmark,
9 to a public markets index, the Altman index.

10 Distressed debt for the year, we're very
11 proud of it actually, up 17.8 percent. Very, very
12 strong. But the Altman index was up 28.6 percent.
13 We've talked in the past, and we've actually made
14 adjustments to the portfolio benchmarking going
15 forward which will smooth this.

16 We've talked about the mismatch in
17 benchmarks in this regard where we're benchmarking
18 our private portfolio which isn't very volatile to
19 a very volatile public markets benchmark. In
20 fact, the Altman index is three to four times more
21 volatile in all regimes than our underlying
22 distressed debt portfolio.

23 So we understand that, and that's the
24 primary reason why value-added fixed income
25 underperformed, even though we're very happy with

1 the 10.3 percent return, absolute return.

2 And the last page I'll talk about is
3 page 5, which is our quilt chart. You can see
4 that private equity returned to the top over all
5 time periods. Global equity is very strong for
6 the past five years, as you know, since we've
7 benefited from a sharp snapback since the world
8 financial crisis.

9 But what you can also notice is that for
10 a longer period of time, 10 years, global equity
11 is near the bottom. This reminds us that global
12 equities in general are a very volatile asset
13 class. In good times, they help us a lot. In bad
14 times, not so much. And that is exactly why we
15 spent the last few years derisking the portfolio,
16 mindful that most of our risk comes from equity
17 risk.

18 Timber, I like this. You can see timber
19 is a very steady performer, even the 10-year
20 number, which includes the world financial crisis,
21 which was really led by a housing crisis. Timber,
22 a very, very strong performer and consistent
23 performer.

24 And hedge funds, I think you'll agree
25 that they are improving dramatically.

1 So that's the quilt chart, an easy way
2 to look at not only what works, but also the
3 relative volatility over long periods of time of
4 the different asset classes. It might help inform
5 you a little bit about why we're doing the things
6 we're doing.

7 So a great year. I thank you all for
8 your support. I'll take any questions, but each
9 asset class head will be reviewing their portfolio
10 in a little more detail as they come up before
11 you.

12 So thank you.

13 TREASURER GOLDBERG: Any questions for
14 Michael?

15 I think all of us who are sitting here
16 were in all the meetings, basically most of the
17 meetings last week. So I think that this sort of
18 solidifies it.

19 Thank you, Michael.

20 MR. TROTSKY: You're welcome.

21 TREASURER GOLDBERG: And on your other news,
22 it was very interesting.

23 So we're done with the executive
24 director/CIO report, if there are no other
25 questions. And we'll move on to the executive

1 director's fiscal year 2017 performance evaluation
2 and fiscal year 2018 goals and objectives, which
3 is a voting item.

4 MR. BROUSSEAU: The first item we have are
5 the goals and objectives, at least on the agenda,
6 III.A is goals and objectives. And you'll find
7 that in Appendix D.

8 I do know that everybody has seen the
9 goals and objectives for this next year, and
10 probably Michael would like to make a few comments
11 because they are his goals and objectives, but --

12 TREASURER GOLDBERG: Also just to mention,
13 Bob, the past year's are Appendix E, if anyone
14 wants to look at them for contrast.

15 MR. BROUSSEAU: For reference, looking at E
16 would have past year's. These are for fiscal year
17 2018.

18 MR. TROTSKY: The goals and objectives for
19 fiscal year 2018 are largely consistent with last
20 year's goals. And we added a few new things that
21 I would draw your attention to.

22 First, we've decided to have the first
23 board educational retreat this fall, so that's
24 new, and that appears on my goals and objectives.

25 Project SAVE II, which I've talked

1 about, Project SAVE Phase II is a new goal on this
2 list, and I've talked about that in the past.

3 The liquidity study is new and was
4 completed in July, so it is in this fiscal year.
5 We completed a very interesting liquidity study
6 that Sarah will recap during her remarks today.

7 And every three years, we are required
8 to review the PRIM Board charters. I think that
9 process is well under way. I hope many of you
10 have been contacted. If not, you will be. So
11 that's on the agenda.

12 Other than that, everything is pretty
13 consistent with last year.

14 MR. BROUSSEAU: Questions?

15 TREASURER GOLDBERG: No. I was just going to
16 mention I haven't been contacted about the
17 charter. Have other people at the table been
18 contacted?

19 MR. BROUSSEAU: No.

20 Dave, is Tom Ianucci going to --

21 MR. GURTZ: I'll have Tom Ianucci recontact
22 all of you and schedule a call.

23 MR. BROUSSEAU: I'll make a motion that the
24 board adopt the executive director's goals for
25 fiscal year 2018.

1 MR. NAUGHTON: Second.

2 TREASURER GOLDBERG: All those in favor?

3 BOARD MEMBERS: Aye.

4 TREASURER GOLDBERG: Any opposed?

5 Seeing none, it passes unanimously.

6 Thank you.

7 (VOTED: To approve the Administration
8 and Audit Committee's recommendations to
9 approve the executive director's fiscal
10 year 2018 goals and objectives, and
11 further to authorize the executive
12 director to take all actions necessary
13 to effectuate this vote.)

14 TREASURER GOLDBERG: All right. Okay.

15 Investment report. Public markets.

16 MR. BROUSSEAU: No. We've got to go over the
17 evaluation. III.B.

18 TREASURER GOLDBERG: Gotcha. That's not a
19 voting item.

20 Okay. Maybe I need more coffee.

21 MR. BROUSSEAU: Okay. Thank you, Madam
22 Chair.

23 I was thinking how I was going to start
24 this this year, and some people said, "Oh, we
25 don't have to come back and listen to you again,
Bob, do we?"

But I think you all have to know that
this is Michael's worst day. He says it every --

1 MR. TROTSKY: Well, I hope it's a good --

2 TREASURER GOLDBERG: No. There's a --

3 MR. BROUSSEAU: Good day.

4 This is his worst day when someone does
5 an evaluation. He'd just as soon leave the room
6 or crawl under the table.

7 In retrospect, I'd like to start by
8 saying seven years ago this month, I sat as chair
9 of the committee, the search committee. We sat at
10 this table. And I think there were about three of
11 us on the committee. We interviewed several
12 people. And we finally decided to make a
13 recommendation to the board to hire Michael
14 Trotsky as our executive director.

15 I did not know Michael. I only met him
16 for the first time when he did his presentation to
17 us. I only knew what was in the résumé. And so
18 naturally, as far as I was concerned, we were
19 recommending an unknown entity to the board.

20 I can say that after seven years -- and
21 your anniversary is coming up very soon,
22 Michael -- I would say that possibly this is the
23 very best decision that this board has made. Some
24 may disagree with me, but you could not say
25 that -- we've seen a transformation of this

1 organization in the last seven years would be
2 probably something that you could not dispute.

3 The first couple of years were very
4 tough because Michael arrived upon a scene when we
5 were losing staff. We were not in the top third
6 of pension funds. We were getting up close to 75
7 to 90 lowest in terms of total performance.

8 And I didn't know how he was going to
9 handle this. And to tell the truth, I had some
10 doubts as to whether or not he would be up to the
11 task that was before him.

12 But he did say one of the first things
13 he needed, he needed to work with a new committee
14 that just was established, a Compensation
15 Committee, "because this board has got to give me
16 the tools that I need to put together a staff that
17 is going to do the job that I think has to be done
18 here."

19 After over a year, and I served on the
20 Compensation Committee, we came forward with a
21 compensation plan that was adopted by the board,
22 and I guess the rest is history. It was adopted
23 in December of 2012, and we gave Michael tools
24 that he needed.

25 Well, you can see the results of the

1 tools that we gave him over what has happened the
2 last five years in this organization, something
3 that we can all be very, very proud of.

4 The evaluation this year, first I would
5 like to thank all of the members of the board and
6 committee members who participated in this
7 evaluation. I received I believe 15 replies,
8 emails or phone messages. Eight of them were from
9 committee members; seven were from board members.

10 As you know -- and I'm not going to say
11 board members who did not participate or committee
12 members. You didn't have to because this day is
13 the day that we set aside for Michael's
14 evaluation. So after I make my remarks, if
15 anybody is interested in adding to them or make
16 their own comments, they can.

17 Also you were given a discussion guide,
18 as you know, with the goals and objectives. And
19 you had his self-evaluation. So you could go
20 through the discussion guide.

21 And we strongly urge, if you haven't
22 done it already and you would rather talk to
23 Michael privately, you can do both. Please come
24 in and see him. He will be very grateful and will
25 love sitting down and meeting with you to hear

1 your thoughts and your concerns.

2 So that is the process we've used. I
3 believe this is the third year, I think it is,
4 David, of the new process, if I'm correct.

5 As I think about it, I thought it was
6 going to make things easier, and it really, in
7 some regards, have made things a little more
8 difficult as far as I was concerned in getting all
9 of these evaluations and just taking comments.

10 Prior to this, we had an objective form.
11 It was very easy for me to compute the above
12 average, average or outstanding, whatever you
13 want. Here are the totals, and make a few general
14 comments.

15 This makes it a lot more subjective in
16 terms of what you tell me about what you like
17 about Michael and what he has done in this
18 organization.

19 So again, I thank all the people who
20 participated.

21 I'd like to start by saying a few
22 comments here. I will start generally. Michael's
23 evaluation, if the last two years were way up
24 there, this year is even more so. I did not
25 receive one negative comment from anybody who

1 participated in the process.

2 The biggest thing that people mentioned
3 was the results of the organization. 13.2 percent
4 for the fiscal year ended June 30 is phenomenal.

5 People mentioned Michael is an
6 innovator. He's talented, intelligent,
7 hardworking, prudent, thoughtful, confident and
8 bold. These are direct comments from people who
9 wrote them.

10 He's a believer in innovation, and we
11 have seen this in this organization. The fact
12 that our peers emulate us is the greatest form of
13 flattery, when they are doing what you're doing,
14 and you are a leader in this area.

15 Accolades given by everybody over our
16 staff and what they've accomplished is
17 unbelievable. They talk about Michael being
18 accessible and open to new ideas. What he has
19 created here is a tremendous working environment.
20 He has worked with all of the staff. You heard
21 today how the finance staff, how they all work
22 together. One of the key things people mention,
23 the rotation of our key people into various areas
24 so they can all become experts in what PRIM does
25 here.

1 People said Michael was a mentor and a
2 teacher. And of course leading an organization
3 like this, you need a mentor, and you do need a
4 teacher to help.

5 He was outstanding in every category
6 that people discussed with me. He exceeds
7 expectations on all of the 19 criteria that he's
8 set out in his goals and objectives. And people
9 mentioned the goals and objectives as the criteria
10 and how they were, they were outstanding, and what
11 he performed this past year.

12 Michael displays a deep commitment to
13 sharing portfolio-wide information, strategy and
14 insights, which are valuable to PRIM's overall
15 strategy. He's interested to hear new and
16 different ideas. His leadership provokes
17 visibility to the fund and attracts quality
18 investment firms, and he is open to all points of
19 view. He enjoys sitting down with you at the
20 office and hearing what you have to say and to
21 give him new ideas.

22 A few other quotes here that I'd just
23 like to use. "Michael has a responsibility" --
24 and this is one I pondered about using. I said,
25 "This is true."

1 "Michael has a responsibility for the
2 fiscal strength of the Commonwealth that equals
3 that of the governor and just a few others at top
4 levels of our government."

5 When you consider the pension issues
6 around the country, in effect, this is a
7 \$67 billion fund, which is quite larger than the
8 state budget actually. So he does have tremendous
9 responsibility as far as the Commonwealth is
10 concerned.

11 One person said, "Michael has fulfilled
12 the standards in his self-evaluation. I grade him
13 excellent."

14 Says, "I am confident Michael can attain
15 even higher standards."

16 "As a board member, it is exciting to
17 see such a great professionalism and productive
18 work and atmosphere in action." And this was
19 talking of course about the staff here.

20 I guess I could go on and go on, but
21 these comments, I think, tells a great deal about
22 Michael. The fact that he inspires confidence.
23 He has a great finance team.

24 One said, "Mike is doing a very solid
25 job. We are lucky to have him, and I am pleased

1 with him."

2 Now, not to mention there were a few
3 comments in terms of what Michael probably is
4 going to have to do, and I know in talking with
5 him, he has mentioned this. And in talking to us,
6 he has.

7 But a couple of these said that --
8 suggestions that should command more of his time.
9 I don't know where he's going to find the time
10 with all he has done here and what he does.

11 But one said, "He should work on
12 creating a deeper investment staff." We know
13 Michael has said that. We have to strengthen the
14 investment staff. All they do, we're asking a
15 small group of people to do a lot. This
16 investment staff has got to be made deeper.

17 "More time has to be devoted to asset
18 allocation," as we look as a board.

19 "More education for board members in
20 investment areas," because not all of the board
21 people are experts or this is not our field of
22 expertise. And we need education also.

23 And also more time has to be spent on
24 long-term strategy. How do we sustain our
25 performance over the long term? These are

1 probably challenges that Michael will have to
2 follow.

3 So I guess in summarizing this, I could
4 say that this evaluation this year was very easy
5 to do. I could have gone back to last year and
6 probably used some of the same comments.

7 I think, Michael, we have a keeper here,
8 and I hope that --

9 TREASURER GOLDBERG: The question is how long
10 is he keeping us?

11 MR. BROUSSEAU: I don't know. Probably his
12 wife might have something to say about that. I
13 don't know.

14 But I can only say and thank all of you
15 for participating in this evaluation. It was a
16 pleasure.

17 And that, I guess, concludes my remarks.
18 I think now if anybody from the board would like
19 to add to it --

20 MR. NAUGHTON: I would, Bob.

21 MR. BROUSSEAU: Or if they would like to make
22 their own comments because mine was just for
23 purposes of getting this discussion started, if
24 people have more to say.

25 MR. NAUGHTON: Yes. So I never understand,

1 other than the fact that I know Michael, as well
2 as being a brilliant and talented guy, he's also a
3 highly modest man. That's why he, I think, dreads
4 this day of evaluation. Certainly he has nothing
5 to fear in the substance of the eval.

6 I was thinking that I came on board with
7 this PRIM Board back around the time that the
8 consideration was being given to the package of
9 compensation and those issues of compensation. I
10 got to participate in that as a board member.

11 And I remember thinking at the time,
12 "This is really going to be critical to attract
13 and retain people."

14 But the most critical thing in
15 attracting and retaining people, I think is the
16 person who's using the tools. It's not the tools
17 themselves.

18 What I see in Michael is somebody who
19 combines a lot of insight in investment with a lot
20 of insight about people. And that's where he is
21 brilliant. He combines those two factors. He has
22 attracted topnotch staff to PRIM. And we have
23 seen the results time after time after time. And
24 we will continue to see that.

25 So I would agree with those who would

1 not want to ever wake up in the morning and find
2 that Michael had decided that, as the Treasurer
3 mentioned, that he may not need us anymore. I
4 hope he always needs us.

5 Thank you, Michael.

6 MR. BROUSSEAU: I think probably I feel also
7 there were several comments on how the community
8 outreach that Michael has done, again, with Paul
9 and his staff, with our clients -- several
10 comments were how pleased the clients were to have
11 Michael and Paul and the client services that we
12 are providing, especially mentioned the new
13 advisory council --

14 TREASURER GOLDBERG: Right.

15 MR. BROUSSEAU: -- that is now in place.

16 From a personal sense, I could listen to
17 everybody and say I'm not going to be repetitious
18 because these are the exact comments that I would
19 have written if I was sending this to another
20 chair of this committee who had to do this.

21 But personally, I'd just like to say
22 that in this past year, I've experienced that
23 Michael is a very caring person. He goes out of
24 his way to assist people, to be kind to people and
25 to help them when they're in need.

1 And I know he does that with his staff,
2 and I have seen him do it on several occasions as
3 far as I was concerned. And I certainly thank him
4 for that.

5 TREASURER GOLDBERG: So I would like to add a
6 couple things. But I don't want to speak ahead of
7 others, if they would like to add anything.

8 For me, there are several items that I
9 think are critical and I have observed over the
10 time frames that I've been here. And I think that
11 Michael's embracing innovation includes a breadth
12 of issues. It's not just in the investment space,
13 but it is in the organizational space.

14 And I think the fact that you were asked
15 along with CalPERS and CalSTRS to lead on good
16 governance strategies shows that although we're a
17 much smaller fund than they are, that they respect
18 the work that's being done.

19 As an old-time HR-focused person, the
20 fact that we see the kind of talent applying for
21 jobs here and the lack of turnover is one of the
22 critical pieces that you really need to look at in
23 the executive director side of Michael's job.
24 Let's not forget he's the CIO and executive
25 director.

1 And I'm sure Jim would agree with
2 knowing how challenging that is because he sat in
3 that chair and knows what it's like to compete
4 with the endowment funds and the big people in the
5 Boston area for talent.

6 MR. HEARTY: It's a significant challenge.

7 TREASURER GOLDBERG: Exactly. So I know you
8 probably have the exclamation marks next to that,
9 as I do.

10 And so I think those are things that
11 really need to be focused on. And to be able to
12 do both of them well is not typical. Most funds
13 would have two people in those roles.

14 And yet look at our returns this year
15 and look at our staff stability. And with that
16 for me as a manager, as a person who looks at what
17 the fund has to accomplish -- and that's why Nick
18 Favorito, who is here, has no hair, when he had a
19 full head several years ago -- is meeting the
20 needs of the retirees.

21 Nick, smiling back there? I can't see
22 you.

23 MR. FAVORITO: Yes, Treasurer.

24 MR. BROUSSEAU: Nick, are you going to let
25 that go?

1 TREASURER GOLDBERG: Because Michael, in
2 deference to Nick, has made sure that we fill the
3 bucket faster than the water is coming out of the
4 bottom.

5 And we need you to keep that up, by the
6 way.

7 So I may be repetitive from last year
8 focusing on those issues, but I think those are
9 the primary ones to focus on.

10 Additionally, Michael and I have a very
11 collaborative relationship. We meet constantly.
12 We talk constantly. We share emails constantly.
13 Text messages. There is a constant back-and-
14 forth.

15 And I can't speak for your history. I'm
16 sure that you probably had very good relationships
17 with prior treasurers, but I know it's not always
18 the case.

19 MR. HEARTY: I wouldn't go that far.

20 TREASURER GOLDBERG: Then I'm going to
21 highlight this with a bright yellow highlighter.

22 MR. HEARTY: I have excellent relationship
23 with the board, I think.

24 MR. BROUSSEAU: Yes.

25 TREASURER GOLDBERG: What I'm trying to say

1 is I think that makes for a very good working
2 relationship also.

3 And so overall, I looked at last year's
4 accomplishments. We succeeded on significant
5 parts of them, including ones that I thought I
6 highlighted last year that I wanted to see get
7 done.

8 I think the board retreat this year is
9 going to be really exciting and interesting. And
10 the look at the charter may be unique to the last
11 couple looks at the charter with hopes to actually
12 not just check off that box and keep on going.

13 So I'm very pleased with where we're at.
14 Obviously the person who also looks at the market,
15 one of the things that Michael and I talk about a
16 lot is why is everyone so optimistic because --
17 and that's why the derisking of our portfolio is a
18 critical piece of what we're focused on because at
19 some point, that's going to be our net. I'm
20 looking right at Connie, and she's nodding.

21 So that's all I really have to add. I
22 don't know if anyone else wants to say anything.

23 MR. SHANLEY: Said it all.

24 MR. HEARTY: I'll just add something. I am
25 the only person here I think who has done Mike's

1 job in the past. It's a very challenging job.

2 It's very important for the relationship
3 between the Treasurer and the executive director
4 to be a beneficial one to each side. It is
5 apparent that that is so here. It's a compliment
6 to both of you.

7 I did not have a great relationship with
8 the second Treasurer I worked for, and that
9 affected the entire organization. Paul has seen
10 both these relationships matter significantly. So
11 I just want to stress that it's great to see the
12 working relationship as complimentary, and
13 compliments to both of you.

14 TREASURER GOLDBERG: Thank you. Appreciate
15 that, Jim.

16 MR. TROTSKY: Thank you.

17 TREASURER GOLDBERG: So this is not a voting
18 item.

19 MR. BROUSSEAU: No, it's not a voting item.

20 TREASURER GOLDBERG: We get to vote on his
21 compensation.

22 MR. BROUSSEAU: At the December meeting.

23 The Compensation Committee will meet in
24 November. And looking at the goals and objectives
25 and the evaluation and what was said here today, I

1 will --

2 The chair of the committee is not here
3 today.

4 TREASURER GOLDBERG: Right.

5 MR. BROUSSEAU: And she will probably ask me
6 to give a review of --

7 TREASURER GOLDBERG: Yes.

8 MR. BROUSSEAU: -- his annual evaluation.
9 And then the committee will decide on the factors
10 of Michael's --

11 TREASURER GOLDBERG: And there's a formula.

12 MR. BROUSSEAU: And that will be done in open
13 session, as the law requires, here at the November
14 meeting. So mark your calendars.

15 TREASURER GOLDBERG: Thank you for your work,
16 Bob.

17 MR. BROUSSEAU: Thank you.

18 MR. TROTSKY: Thank you, Bob.

19 MR. SHANLEY: Nice job, Bob.

20 TREASURER GOLDBERG: Now you can breathe.

21 MR. HEARTY: It's a long time to hold your
22 breath.

23 One question, Madam Chair. Given your
24 comments around Nick, should we expect him to
25 start losing his hair?

1 TREASURER GOLDBERG: No, not at all. No.

2 It's got grayer since I've known him
3 because trying to have this kind of performance in
4 this kind of world is difficult.

5 I actually want to comment on that.
6 What's interesting is, given our strategies, we
7 actually would have been -- some of our peer
8 groups perform well in a way by accident, not with
9 a strategy.

10 I think Connecticut is a perfect
11 example. They were just completely -- because
12 they literally had two employees in their entire
13 fund. It's very chaotic in Connecticut, but they
14 happen to have gone into these equity funds. And
15 so they were carried along, but there also could
16 very quickly go in the opposite direction.

17 So I think you have to really look at a
18 period of time over time because there were those
19 who just are heavily in equities, happened to do
20 well, but it wasn't a strategy for them.

21 Wouldn't you agree with that, Michael?

22 MR. TROTSKY: Yes. I think Connecticut had
23 56 or 57 percent in equities.

24 TREASURER GOLDBERG: Yes, which is scary.

25 MR. TROTSKY: But thank you very much for

1 your vote of support.

2 And more importantly, thank you to the
3 staff of PRIM who allows you to have confidence in
4 me. They do all the work, and I couldn't do it
5 without them. I love coming to work here every
6 day with this staff. It's a great place to be.
7 And we're innovative, smart, fun. And I hope it
8 continues.

9 Thank you, everybody.

10 TREASURER GOLDBERG: Now, with that, we have
11 a lot to squeeze into the remaining part of the
12 meeting. So we're going to start to -- the good
13 news is that we've reviewed a significant amount
14 of that before, but we will start with public
15 markets performance, investment research.

16 Thank you, Sarah.

17 MS. SAMUELS: Good morning, everyone.

18 So I'm going to be talking about that
19 same performance handout that Michael was at. I'm
20 going to turn your attention to page 6, please.

21 But before I go into performance, I'd
22 just like to recap briefly our year, our fiscal
23 year, and what we have accomplished in public
24 markets and investment research. We had a
25 successful and productive year on the public

1 markets team. I'd like to thank Chuck, Andre,
2 Andre and Andrew for all their great work.

3 So the public markets portfolio has
4 contributed meaningfully to the PRIT Fund's total
5 return. I'll talk about that a little later. We
6 invested over \$5 billion of capital in the last
7 year, including our international small cap
8 allocation, which is new.

9 And we conducted some research projects
10 that I think the findings were quite interesting
11 such as rebalancing and restructuring our value
12 and fixed income allocation as Michael mentioned.

13 And just two weeks ago on the investment
14 research front, Chuck LaPosta and I presented some
15 work that we did conducting a liquidity study, an
16 in-depth liquidity study, really seeking to answer
17 the question do we have sufficient liquidity to
18 pay our benefits, our obligations that we need to
19 pay in a given year, both in normal environments
20 and in stressed environments.

21 And we did this really using a rigorous
22 set of factors and stresses on the portfolio to
23 confirm that we are comfortable with our
24 liquidity. We considered the fact that liquidity
25 is reduced in stressed environments, that we may

1 not be able to sell from many asset classes that
2 we can in normal environments. We shocked the
3 portfolio using returns from 2008, for example,
4 global equities down almost 40 percent.

5 We made some conservative assumptions
6 about our cash needs, so we made stresses assuming
7 that we had greater capital calls for our private
8 markets portfolios, that we had higher benefit
9 payments.

10 And we demonstrated the importance of
11 not selling low. We showed that you can actually
12 destroy a great deal of value by being a forced
13 seller when markets are down.

14 So the punchline is that even with these
15 conservative assumptions, we found that we do have
16 sufficient liquidity to pay our benefits and meet
17 our obligations in both normal and stressed
18 environments. We're going to conduct and update
19 this liquidity study on an annual basis as part of
20 our asset allocation work. And we also have a
21 plan for sourcing our liquidity needs in the next
22 stressed environment.

23 MR. TROTSKY: It is an excellent report.

24 MS. SAMUELS: Thank you.

25 TREASURER GOLDBERG: Great.

1 MS. SAMUELS: So turning to performance on
2 page 6, this is our garden chart. And as Michael
3 mentioned earlier, there's an awful lot of
4 positive returns in the last year, awful lot of
5 green on this chart, and a lot of double-digit
6 returns.

7 Assets in the top left quadrant, which
8 is where the majority of our investments lie, both
9 in terms of market value and risk, did quite well.
10 So this was a great year for us and our asset
11 allocation and our managers.

12 I'll highlight a couple of themes that
13 play out in this chart that also tie into our
14 active management returns in the public markets.

15 So three themes. One is that low
16 quality stocks and low quality bonds outperformed
17 their higher quality counterparts.

18 Second theme is it was quite a friendly
19 environment for risky assets across the board. So
20 the cost of credit fell dramatically as seen in
21 both high yield and investment grade credit. And
22 as Michael mentioned, equity valuations continue
23 to rise.

24 And then the third theme is that non-
25 U.S. assets outperformed their U.S. counterparts.

1 So if we turn to performance on page 7,
2 the public markets portfolios, all of our public
3 equities and bonds total about 43 billion. So
4 that's about two thirds of the fund in public
5 markets.

6 Our public equity portfolios total about
7 \$30 billion. And our global equity composite, as
8 Michael mentioned, rose 21 percent in the trailing
9 year. So at almost half of the fund, about
10 45 percent, up 21 percent, this was a major
11 contributor to the total return for the year.

12 In absolute terms, just drilling into a
13 couple of asset classes on this page, emerging
14 markets on the left side here rose the most in the
15 last year, up 23 percent for the index. Our
16 managers outperformed. They're really knocking
17 the cover off the ball in emerging market equity.
18 Outperformed by almost 5 percent.

19 Small caps were also up over 20 percent
20 for a few reasons, but a big one was optimism
21 around tax reform. So tax cuts are a bigger deal
22 and disproportionately benefit smaller companies
23 versus their larger cap counterparts.

24 International equities rose 20 percent,
25 and U.S. large caps were up 18 percent. So strong

1 returns across the board in our global equity
2 portfolio.

3 Happy to take any questions. I am sort
4 of condensing my comments in the interest of time.

5 TREASURER GOLDBERG: Are there any questions
6 on this? I think everyone here has heard this
7 last week.

8 MS. SAMUELS: Sure. I can speed it up.

9 TREASURER GOLDBERG: Just a quick review.

10 MS. SAMUELS: I'll skip through fixed income.
11 The punchline is that the one asset class that
12 declined in absolute terms really was core fixed
13 income, where we had rates rising with growth, and
14 inflationary expectations rising with Trump's
15 election.

16 TREASURER GOLDBERG: And STRIPS.

17 MS. SAMUELS: Yes.

18 TREASURER GOLDBERG: Which is the correlation
19 to equities.

20 MS. SAMUELS: Yes. That's right.

21 And then pages 9 and 10, I'd like to
22 take a deeper dive into the drivers of risk and
23 return a couple times a year, and fiscal year
24 makes good sense.

25 Page 9 really shows what Michael was

1 talking about where we've got about 64 percent of
2 the fund in growthy assets. So things like public
3 equity, private equity, and value and fixed
4 income. But that contracts the majority of the
5 fund's risk. So our equity-like risk is really
6 something to be aware of. And as Michael said, we
7 haven't taken steps to diversify our risk sources.

8 Page 10 takes a look at the contributors
9 to return. And the reason I like this page is it
10 takes into account the weights that are -- the
11 dollars invested in each asset class.

12 And so on the left side here, we've got
13 contribution to total return, so how did we get to
14 that 13.2 percent return? And on the right side,
15 we've got contribution to excess return.

16 And as Michael mentioned, global
17 equities and private equity really were the story
18 for total return on a weighted basis. And global
19 equities, private equity and portfolio completion
20 strategies for a contribution to excess return.

21 So happy to take any questions. If
22 not --

23 Yes.

24 MR. BROUSSEAU: I was not at the Investment
25 Committee meeting. I think I had a doctor's

1 appointment when the meeting was held.

2 But probably you wouldn't know the
3 answer to this. Every time PERAC decides to lower
4 the actuarial rate, it really raises havoc with
5 our bottom line. It shows the unfunded liability
6 just escalating out of control.

7 TREASURER GOLDBERG: That's not entirely
8 true. It's not havoc. And there really are
9 strong arguments for lowering the rate.

10 MR. BROUSSEAU: I know for lowering the rate,
11 but every time we lower the rate --

12 TREASURER GOLDBERG: It does increase the
13 liability, but it's considered a more realistic --

14 MR. BROUSSEAU: It also gives the impression
15 that we do not have the liquid resources to pay
16 benefits down the way.

17 One of the biggest things that we're
18 seeing people who are attacking defined benefit
19 pensions is that these pension plans are not
20 sustainable.

21 And I say yes, they're not sustainable
22 because over the years, the government has not
23 contributed. So we look at liquidity problems as
24 we go along and having to pay benefits. Certainly
25 nobody wants to be in a state like Illinois is

1 where they're in deep crisis with their pension
2 fund.

3 This has to interact with what you do,
4 Sarah.

5 MS. SAMUELS: Right. In terms of the
6 liquidity study or just more generally with asset
7 allocation --

8 MR. BROUSSEAU: Yes. Just --

9 MS. SAMUELS: Yes. It's certainly something
10 to keep in mind.

11 You know, Michael has mentioned this
12 before. There are a lot of moving pieces and
13 moving parts and different implications to the
14 expected rate of return and what that means, when
15 that changes.

16 And what we can do here is really
17 determine how to invest our assets to reach that
18 return to the best of our ability.

19 MR. TROTSKY: Last time I looked at it, every
20 quarter percent, every 25 basis points, that the
21 actuarial rate of return is lowered increases the
22 unfunded liability by something around
23 \$1.8 billion.

24 And over the past -- correct me if I'm
25 wrong, Mike. It's in this order of magnitude.

1 And also over the past few years,
2 they've done a new mortality study which says that
3 people are living longer. So that also increases
4 the liability.

5 There are a lot of moving pieces, but
6 what I always say with anyone who asks me is there
7 are really three levers.

8 One, the state could find more money to
9 fund the unfunded liability. That's difficult in
10 this environment obviously.

11 Two, benefits could be cut. No one
12 wants to do that. No one in this room wants to do
13 that.

14 Or three, we can try to earn good
15 returns here at PRIM. And really what we are a
16 hundred percent focused on at PRIM is the last
17 lever. That's all we really do is try to get good
18 returns. And it's important that we're set up to
19 at least have one strong lever.

20 TREASURER GOLDBERG: So I'm going to readily
21 admit that I've been a chief proponent of lowering
22 the rate. It was 8.25 when I was running for
23 office. I was recommending going down to 8. I
24 recommended going down to 7.75 and then 7.5.

25 I did hold this year because -- but we

1 do have others that are dropping down to 7. The
2 community I come from may even be below 7 now and
3 will be fully funded. But we, when I was there,
4 began putting money to one side.

5 I've worked with the A&F people on
6 trying -- because the formula that was committed
7 to for five years is expiring, and encourage them
8 to continue to adjust that.

9 I have to tell you, this is something
10 that the rating agencies look at. But candidly,
11 they're more focused on the rainy day fund and the
12 lack of having replenished the rainy day fund.

13 They are supportive of our strategies
14 around the pension fund as long as the legislature
15 really addresses the rainy day fund issue. But if
16 it becomes cumulative, that is a bigger issue for
17 them, and it did result with Standard & Poor's in
18 a downgrade this year.

19 The good news is that our issuances are
20 way oversubscribed, so I think people still feel
21 that we have our hands around our fiscal controls.
22 But it is a delicate balance.

23 And I totally understand where you're
24 coming from. Pension reform of 2010 helped a
25 great deal. The mortality charts are showing

1 people are living longer, but at the same time,
2 and particularly with your cohort of teachers,
3 women are starting to catch up with mortality in
4 dropping down, that you're beginning to see
5 increased heart disease, stress and the like. So
6 those will vary also.

7 I get how you're feeling. I think that
8 we're doing a good job here at PRIM to try to stay
9 ahead of that. But I have to say that I'm
10 planning on being here a long time, and unless the
11 world changes dramatically, I have to admit to you
12 you are going to see me recommend a readjustment
13 downward as we move forward. And it's just the
14 reality.

15 The rating agencies in the world think
16 that we're more realistic. They actually value
17 this enormously. And we are being more realistic.

18 MR. BROUSSEAU: But then on the other hand,
19 they take that lowering the rate as a reason, and
20 we see it in the national press and in even the
21 local press, to attack public pensions as being
22 the reasons why we have these large unfunded
23 liability that are not sustainable.

24 TREASURER GOLDBERG: You can't compare us to
25 Illinois --

1 MR. BROUSSEAU: I'm not trying to.

2 TREASURER GOLDBERG: -- or New Jersey.

3 You will hear me publicly speak, and
4 people who really get it will understand. I
5 understand your anxiety around it, but from a
6 fiscal point of view, it's the right thing to do.

7 MR. NAUGHTON: Yes.

8 TREASURER GOLDBERG: It also forces the hand
9 of the legislature. You're sending a message.
10 You're saying, "Guys, hello."

11 MR. NAUGHTON: I'd like to just weigh in with
12 a couple of thoughts on this since I represent the
13 teachers and that's the largest slice of this
14 fund.

15 TREASURER GOLDBERG: Right.

16 MR. NAUGHTON: As does Bob.

17 When it comes to looking at -- what I
18 look at is another three-legged stool. One of the
19 legs is what teachers and other employees of the
20 state pay in out of their paychecks.

21 TREASURER GOLDBERG: Right.

22 MR. NAUGHTON: Nobody ever gave them a
23 holiday on their payments. That comes out every
24 check forever while they're working.

25 MR. BROUSSEAU: 11 percent.

1 MR. NAUGHTON: The same is not true of the
2 legislature. The legislature can make up its own
3 rules as it goes along.

4 So one can understand the frustration
5 that Bob is expressing because while certainly we
6 have to consider fiscal responsibility and the
7 rating agencies, we also have to consider what
8 gets done with that data that's naughty and
9 unfair. And that's what Bob is talking about.

10 TREASURER GOLDBERG: You've heard me speak to
11 that.

12 MR. NAUGHTON: I have done, yes. But I think
13 I just want to reinforce --

14 And I left out the third leg. I think
15 this organization has done its job in fine style
16 under Michael's -- and previous groups.

17 We all bear the frustration of not being
18 able to actually control that third leg. And yes,
19 we do have to talk about that. And we do have to
20 step up and defend and remind people that no
21 teacher ever got a holiday on the deduction from
22 his or her paycheck. In fact, at 11 percent,
23 they're all but financing their own pensions over
24 the course of their careers.

25 TREASURER GOLDBERG: I also want to mention

1 they don't get Social Security.

2 MR. NAUGHTON: They don't get Social
3 Security.

4 TREASURER GOLDBERG: A lot of people don't
5 know that.

6 MR. NAUGHTON: And those who do get Social
7 Security from another source --

8 TREASURER GOLDBERG: Get a reduction.

9 MR. NAUGHTON: -- get a reduction because
10 that's the way the --

11 MR. BROUSSEAU: Windfall elimination.

12 TREASURER GOLDBERG: So it's complicated and
13 it's technical. And so that's why I take it upon
14 myself to articulate both sides of the message.

15 And I want you to know I have pushed
16 very hard on A&F to -- you know, they were going
17 to do 10 percent over three years, drop down to 7.
18 I pushed very hard to stay at 10 because it was
19 expiring in 2017.

20 They are compromising somewhere in the
21 middle, but I do have them pushing. And in these
22 reduced revenue times, any amount that I get above
23 what was the plan is a success.

24 MR. NAUGHTON: Well, I think for my part, for
25 my constituents, I'm glad we have a Treasurer who

1 has the proper sensitivities in these matters.

2 TREASURER GOLDBERG: But it's a really tough
3 balance.

4 MR. NAUGHTON: It is. I understand.

5 TREASURER GOLDBERG: It's a balancing act.

6 Believe me, nobody wants to hear when I
7 talk about the rainy day fund. But I warn them --
8 I went back and I looked. In my inaugural speech,
9 I talked about the rainy day fund. So that
10 warning was out there from day one of my
11 administration.

12 And lo and behold. So --

13 MR. BROUSSEAU: I apologize for getting us
14 off track.

15 TREASURER GOLDBERG: No, no. It's a
16 worthwhile conversation.

17 MR. BROUSSEAU: We talk about liquidity
18 and --

19 TREASURER GOLDBERG: The good news is we have
20 the money to pour in the bucket. And we're
21 staying ahead of the bottom right now.

22 So okay. Thank you, Sarah.

23 Private equity.

24 Eric, by the way, Mike Bailey and I met
25 with an interesting group yesterday which requires

1 your deep dive on it so we'll both speak to you
2 about it. It was very interesting strategy. The
3 question is if it's real. If it's real, then it
4 may be worth looking at in a small way.

5 MR. NIERENBERG: Okay. Great.

6 TREASURER GOLDBERG: I think I surprised
7 Mr. Bailey on how much I knew. It's
8 pharmaceuticals.

9 MR. NIERENBERG: Okay. Interesting.

10 TREASURER GOLDBERG: I was surprised at how
11 much I knew.

12 MR. NIERENBERG: All right. Michael already
13 covered a lot on performance and risk-adjusted
14 returns and also some of the changes that we've
15 made with managed accounts and transparency, so
16 I'll skip over that piece, and provide some
17 detailed comments on performance and talk about a
18 couple of initiatives. I'll keep the comments
19 brief, but as always, if you have any comments,
20 please interject.

21 One thing that I mentioned at the
22 Investment Committee meeting that is really
23 important is that as we've been trying to
24 integrate the credit and equity hedge funds into
25 our broader public markets portfolio, our PCS

1 group has been working very closely with the
2 Public Markets group. We're using this common
3 evaluation framework that we've developed for
4 hedge funds to evaluate funds across the spectrum,
5 in different types of strategies in the credit and
6 equity markets.

7 We're very excited about this, and I
8 think it's gone extremely well.

9 We have gone down to New York a couple
10 of times to visit managers togetherly. And we are
11 working on some very interesting new credit
12 opportunities, and we've been able to help, where
13 appropriate, to give our insights.

14 From a strategic standpoint, it's a
15 great thing for PRIM and something that I
16 personally am very excited about.

17 Just two sentences on hedge fund
18 performance. As Michael mentioned, the portfolio
19 returned 9.4 percent for the year, which is quite
20 good, but the performance strength was broad-
21 based. Some of the standouts included structured
22 credit, distressed and long/short equity. Our
23 replication effort also performed very well, which
24 we're happy to report.

25 Even in a difficult year for systematic

1 macro strategies, our systematic macro portfolio
2 did outperform the industry benchmark. It was
3 positive for the year, which is more than you can
4 say for what the industry returned. And much of
5 that is due to a high level of diversification
6 that we built into our macro portfolio.

7 The agriculture and land banking
8 strategies have done well, and the blueberries are
9 very much on track. I was in Michigan last
10 week --

11 TREASURER GOLDBERG: I don't see any in this
12 fruit bowl.

13 MR. NIERENBERG: They are available at
14 Shaw's. You can check. And I have word --

15 MR. NAUGHTON: BJ's too. I bought some
16 yesterday, just for the cause.

17 MR. BROUSSEAU: Two for \$4.

18 TREASURER GOLDBERG: You're trying to support
19 the investment, Dennis?

20 MR. NAUGHTON: Yes.

21 MR. NIERENBERG: And I have word that later
22 this year, it looks like Stop & Shop might get
23 them as well.

24 TREASURER GOLDBERG: Not my Stop & Shop
25 unfortunately.

1 MR. NIERENBERG: On a couple of the other
2 initiatives that we've undertaken over the last
3 couple fiscal years, first is the replication
4 strategy. We've continued to broaden that in
5 terms of the scope, and we're very pleased with
6 that performance.

7 We also have enhanced the robustness of
8 the proprietary alternative beta evaluation
9 framework we use to apply across different asset
10 classes. Chuck LaPosta was very helpful in
11 pulling a whole new set of factors that we can use
12 for evaluating credit strategies. Already we're
13 seeing some very visible and noteworthy
14 enhancements within the model results.

15 Again, I couldn't do this without my
16 hedge fund team. Bill Li is really the master of
17 everything in a lot of ways. He's actually at a
18 weeklong quantitative seminar with Luis Ramon, our
19 director of risk, learning about topics like
20 mathematical copulas, and it is great to have that
21 kind of intellectual firepower in-house.

22 Our interns, Liu Liu and Andres Uribe,
23 in the back, who in just a couple months have made
24 very significant achievements and contributions to
25 our team.

1 That's what I have on an update for PCS.
2 If you have any questions on that, happy to take
3 them.

4 TREASURER GOLDBERG: Anyone who missed, of
5 course missed the history lesson and socioeconomic
6 environment of Brazil. Missed something great.

7 MR. BROUSSEAU: I missed it.

8 TREASURER GOLDBERG: We'll give you a private
9 showing.

10 MR. NIERENBERG: We do have one voting item
11 for your consideration.

12 TREASURER GOLDBERG: So I will seek a motion
13 in a second, and then have you go into the full
14 description of it.

15 I would seek a motion of an initial
16 allocation of up to 150 million to the Canvas
17 Capital Distressed Credit Strategy, that the PRIM
18 Board approve the Investment Committee's
19 recommendation to approve an initial allocation of
20 up to 150 million to the Canvas Capital Distressed
21 Credit Strategy as described in Appendices G and H
22 of the expanded agenda, and further to authorize
23 the executive director to take all actions
24 necessary to effectuate this vote.

25 Is there a motion?

1 MR. HEARTY: So moved.

2 TREASURER GOLDBERG: Second?

3 MR. BROUSSEAU: Second.

4 TREASURER GOLDBERG: Okay. Go ahead.

5 MR. NIERENBERG: I'll keep the comments
6 brief. Bob, happy to fill you in on the details
7 on the Brazilian constitution and economy, if you
8 have interest.

9 TREASURER GOLDBERG: And also the different
10 areas of the country.

11 MR. BROUSSEAU: No more presidents are
12 impeached.

13 TREASURER GOLDBERG: We're okay with that.
14 We just have to pick the right judges.

15 Am I wrong?

16 MR. NIERENBERG: No. You're right.

17 As a brief reminder of what this is,
18 Canvas is a multi-strategy alternatives manager
19 based in Brazil, with offices in both São Paulo
20 and Rio de Janeiro. They have AUM of
21 approximately one and a half billion. It is an
22 employee-owned firm. Credit Suisse owns a passive
23 20 percent stake.

24 The distressed credit strategy that's
25 before you has a track record of over five years.

1 It has a very strong history of producing good
2 risk-adjusted returns. Rafael Fritsch, the lead
3 portfolio manager on this strategy, has built an
4 outstanding team that spans both credit analysis
5 and legal analysis.

6 I was in Brazil two weeks ago. I spent
7 a lot of time with every member of that team, and
8 came away with a high level of conviction that
9 they can execute on this strategy in a way that
10 others really cannot.

11 Rafael also has a very strong pedigree,
12 spending time at some of the other prominent firms
13 in Brazil such as JGP, but also at some of the
14 major hedge funds and investment banks like
15 Arrowgrass, Deutsche Bank and Bank of America.

16 There are really two main investment
17 themes, which are described in greater length in
18 the memorandum. One is focused on corporate
19 distress and turnaround situations. The other
20 involves Brazilian federal claims, known as
21 precatórios, which, without going into a lot of
22 the details, have the same legal standing as
23 Brazilian sovereign debt. They also have short
24 duration, which we think is important as well.

25 Consistent with what we've done on the

1 hedge fund program, we will have a managed account
2 setup for this investment. Matt Liposky has spent
3 a large amount of time making sure that we
4 understand the structure very well, and Aberdeen
5 has also been a lot of help in this area. We feel
6 confident that we have good protections. In fact,
7 some of the Brazilian regulations actually are
8 stronger than what we have in the U.S. in terms of
9 investor protection.

10 I think we've negotiated a very
11 favorable fee arrangement as well, consistent with
12 past investments.

13 I'll leave it there. Happy to take any
14 questions, if you have any.

15 TREASURER GOLDBERG: Any questions for Eric?

16 So we have a motion. We have a second.

17 All those in favor?

18 BOARD MEMBERS: Aye.

19 TREASURER GOLDBERG: Any opposed?

20 Seeing none, the motion carries.

21 (VOTED: To approve the Investment
22 Committee's recommendation to approve an
23 initial allocation of up to \$150 million
24 to the Canvas Capital Distressed Credit
25 Strategy as described in Appendices G
and H of the expanded agenda, and
further to authorize the executive
director to take all actions necessary
to effectuate this vote.)

1 MR. NIERENBERG: Thank you very much.

2 I forgot to mention one thing in the
3 update, and Darren can speak to it if you have any
4 questions. Yesterday, the merger of Aberdeen
5 Asset Management with Standard Life of Britain
6 closed. The renamed firm is now Aberdeen
7 Standard.

8 From our perspective, there's no change
9 in the relationship except now Aberdeen has an
10 even stronger group behind it. And the hedge fund
11 area in particular is one that Aberdeen Standard
12 has identified as being an area of focus for them.

13 So we don't anticipate any changes in
14 either the team or the level of resources that
15 Aberdeen Standard would devote to our account.
16 But as I said, if you have any questions either
17 now or after the meeting, please ask me or Darren.
18 Happy to fill you in.

19 Thanks very much.

20 TREASURER GOLDBERG: Thank you.

21 MR. TROTSKY: Thank you, Eric.

22 TREASURER GOLDBERG: Michael.

23 MR. BAILEY: Good morning, Treasurer Goldberg
24 and members of the board.

25 I'm going to make a few remarks on

1 performance, but be very brief. I'll just mention
2 on accomplishments, picking up on what Sarah and
3 Eric talked about, for our fiscal year, we had a
4 very productive year. We made four fund
5 investments in that smaller end of the buyout
6 market that we've been talking about with you as a
7 strategic goal for a number of years.

8 We made four additional co-investments
9 which is one of our major initiatives under
10 Project SAVE. Those are those no-fee and no-
11 carried-interest co-investments that we think will
12 drive performance going forward without much
13 additional risk.

14 And I'm proud to say, picking up on some
15 of the Michael's comments, I'm really working with
16 the strongest team I've ever worked with at PRIM.
17 I'm very, very proud of the team's performance in
18 the last year.

19 Michael Trotsky mentioned some work that
20 you'll hear about later that Michael McGirr led
21 with one of our interns this summer. Michael
22 continues to be just an extraordinarily strong
23 performer. He has unusual talent, combining a
24 deep intellect with extraordinary project
25 management skills, which you often don't find in

1 investment professionals at his level.

2 And as Michael mentioned, we're very
3 proud of Alyssa. She's been here about a year,
4 but it seems like a lot longer, given the
5 footprint she's left on the portfolio already and
6 some of the leading efforts she's made in
7 improving our research, which already we're really
8 proud of, but it's always great to get a third
9 person in to expand that.

10 So I'm just really, really happy with
11 the team and how it's working well together.

12 And then on performance, I want to be
13 brief because the performance has been really
14 good, so if I say anything, it's just going to
15 take away from the very strong one-year number at
16 21 percent. I would say contextually, that's the
17 strongest number we've had in three fiscal years.

18 I think also we've talked with you all
19 about how we really don't expect private equity to
20 keep up with public equity markets when they race
21 forward like this in short periods of time. We
22 just don't expect it for a number of reasons. But
23 this year, it did. It beat the public equity
24 market.

25 We used that broad benchmark, the

1 Russell 3000, and it exceeded the performance of
2 the Russell 3000. I wouldn't count on that when
3 the Russell 3000 or the S&P 500 races ahead, but
4 this year, it did.

5 And then secondly, and it relates to
6 some of the comments on liquidity, we don't often
7 talk about it, but the portfolio sent back about a
8 third of its value or almost \$2 billion in cash to
9 the pension plan.

10 We don't think of this as an asset that
11 generates cash for the leaky bucket, but it really
12 does over long periods of time, and that's similar
13 to its long-term performance. So really proud of
14 the performance of the portfolio.

15 The last thing I'll just say about
16 performance is nothing comes without a cost. I
17 think some of our asset classes are in a very kind
18 of late part of the cycle here where private
19 equity has become very expensive like other asset
20 classes. Sarah mentioned credit markets being
21 really frothy, and we think that's impacting
22 pricing, driving up pricing in our market.

23 And so I would be cautious about where
24 we are here in this part of the cycle where it's
25 very hard to buy any companies at any kind of,

1 sort of reasonable pricing. Pricing is high.

2 So those are my comments on performance.

3 You'll see on page 16 of your expanded
4 agendas that with the approvals we'll discuss
5 later today, we'll have said yes to over a billion
6 dollars of new capital to eight buyout funds and
7 one growth equity fund against that \$1.4 billion
8 target for the calendar year, so we're very close
9 to that target.

10 But we see good visibility on a pipeline
11 of great investments for the fourth quarter.
12 We're going to have to make some tough decisions,
13 as we always do, on which ones of those are going
14 to pass our high hurdle to go into the portfolio,
15 but I could see comfortably getting close to that
16 \$1.4 billion of targeted assets.

17 And the asset allocation that Michael
18 mentioned earlier, we approved up to 11 percent.
19 We've drifted down a bit to 10.6 percent in the
20 last reporting period. That's mostly because the
21 good news, that the equity markets rallied and the
22 67 billion grew much faster than the 7 billion.

23 So we're a little below the target, but
24 with good visibility on continuing to make
25 commitments that will ultimately drive us towards

1 that 11 percent goal.

2 So those are my prepared remarks. I
3 wanted to be brief, Treasurer Goldberg, and I'm
4 happy to take questions on any part of the
5 performance before we turn to the voting items.

6 TREASURER GOLDBERG: Questions for Michael?

7 We have a lot of things to vote on, so I
8 think we should turn to the voting items. And the
9 first one would be an investment recommendation of
10 GTCR Fund XII. I'm going to seek a motion and a
11 second, and then we'll go into your
12 recommendation.

13 I would seek a motion that the PRIM
14 Board approve the Investment Committee's
15 recommendation to approve a commitment of up to
16 200 million to GTCR Fund XII as described in
17 Appendix B of the expanded agenda and further to
18 authorize the executive director to take all
19 actions necessary to effectuate this vote.

20 Is there a motion?

21 MR. NAUGHTON: So moved.

22 TREASURER GOLDBERG: Second?

23 MR. SHANLEY: Second.

24 TREASURER GOLDBERG: Okay. Take it away.

25 MR. BAILEY: Thank you, Madam Treasurer.

1 Michael McGirr is going to lead the discussion on
2 GTCR.

3 MR. McGIRR: GTCR has been one of the
4 stronger performing groups for our portfolio.
5 We've been investing with them for 30 years across
6 nine prior funds. When you're talking about the
7 numbers that Mike Bailey has just mentioned, GTCR
8 is a strong contributor to those.

9 The firm is led by their 11 MDs, who
10 have been at the firm for on average 15 years, all
11 working together as partners.

12 They're one of the leading private
13 equity firms in the middle market segment, and
14 they're really focused on growthy opportunities in
15 the U.S., primarily in tech, media,
16 telecommunications companies, financial services
17 and technology, healthcare and growth business
18 services. We're excited about the investment
19 because of the strong top line and earnings growth
20 that their companies generate.

21 They really pioneered the platform and
22 bolt-on acquisition strategy and have refined it
23 almost to perfection, and we believe that creates
24 a lot of value. We also think there's a embedded
25 risk reduction in their strategy that allows them

1 to phase their capital deployment.

2 Happy to take any questions or comments.

3 TREASURER GOLDBERG: Are there questions for
4 Michael? That's three Michaels at a table.

5 MR. SHANLEY: I always ask this. Do you
6 think we'll get the 200 million?

7 MR. MCGIRR: I do. We're on the advisory
8 committee here, and we've been very vocal and
9 ahead of this fundraiser, which popped up in terms
10 of timing.

11 MR. SHANLEY: Good. Thank you.

12 MR. MCGIRR: But we've been able to dedicate
13 the research so --

14 MR. BROUSSEAU: The fact that we're a 30-year
15 customer.

16 MR. MCGIRR: That helps.

17 MR. BROUSSEAU: I would hope.

18 TREASURER GOLDBERG: Okay. Then we have a
19 motion. We have a second.

20 All those in favor?

21 BOARD MEMBERS: Aye.

22 TREASURER GOLDBERG: Any opposed?

23 Seeing none, passes unanimously.

24 (VOTED: To approve the Investment
25 Committee's recommendation to approve a
commitment of up to \$200 million to GTCR
Fund XII as described in Appendix B of

1 the expanded agenda, and further to
2 authorize the executive director to take
3 all actions necessary to effectuate this
4 vote.)

5 TREASURER GOLDBERG: Next. So I would seek a
6 motion for an approval of a commitment up to
7 150 million to Charlesbank Equity Fund IX, LP and
8 Charlesbank Equity Fund IX Overage Allocation
9 Program; that the PRIM Board approve the
10 Investment Committee's recommendation to approve a
11 commitment up to 150 million to Charlesbank Equity
12 Fund IX, LP and Charlesbank Equity Fund IX Overage
13 Allocation Program as described in Appendix C of
14 the expanded agenda, and further to authorize the
15 executive director to take all actions necessary
16 to effectuate this vote.

17 Is there a motion?

18 MR. BROUSSEAU: So moved.

19 TREASURER GOLDBERG: Second?

20 MR. HEARTY: Second.

21 MR. BAILEY: Alyssa is going to walk through
22 Charlesbank.

23 MS. FIORE: Sure. So Charlesbank is another
24 existing manager for PRIM. We've been investing
25 with them since 2000 so not 30 years, but a
26 longstanding relationship for PRIM, and we've been

1 invested in four funds.

2 So Charlesbank is located here in
3 Boston, and they also have an office in New York.
4 And they're primarily investing in middle market
5 companies in the U.S. across their core sectors of
6 business services, education, consumer, and they
7 also do some work with industrials as well as
8 telecom and media.

9 So Charlesbank has also had strong
10 performance in the middle market, which is, we've
11 talked about at this table, where we're trying to
12 position our portfolio. And their funds have had
13 strong performance against industry benchmarks.

14 Charlesbank also has a really
15 disciplined investment approach, and they're
16 really focused on reducing the downside of risk
17 with their investments, which reduces risk across
18 the fund.

19 And lastly, Charlesbank has a highly
20 talented organization. The senior partners have
21 been working together for over 18 years, and they
22 have deep investment skill across a broad variety
23 of industries.

24 I'm happy to take any questions or
25 comments.

1 TREASURER GOLDBERG: Any questions on
2 Charlesbank?

3 Seeing none, we have a motion. We have
4 a second.

5 All those in favor?

6 BOARD MEMBERS: Aye.

7 TREASURER GOLDBERG: Any opposed?

8 Passes unanimously.

9 **(VOTED: To approve the Investment**
10 **Committee's recommendation to approve a**
11 **commitment up to \$150 million to**
12 **Charlesbank Equity Fund IX, LP and**
13 **Charlesbank Equity Fund IX Overage**
14 **Allocation Program as described in**
15 **Appendix C of the expanded agenda, and**
16 **further to authorize the executive**
17 **director to take all actions necessary**
18 **to effectuate this vote.)**

19 MR. BROUSSEAU: Just a fast comment. Looking
20 on page 14 of Charlesbank, the appendix, we have
21 invested almost \$300 million with them, and the
22 highest amount we've ever been given is
23 110 million. Do you think that 100 million will
24 fly this year?

25 MS. FIORE: So they're raising the main fund,
Fund IX, and they have an overage allocation fund
that will invest alongside the Fund IX. So we're
expecting between those two funds being able to
get about 150 million allocation.

1 MR. BROUSSEAU: Yeah, but the largest fund we
2 got was the 2014.

3 MS. FIORE: So this overage allocation fund
4 is new for Fund IX so we're hoping to get some
5 more capital to work with that program.

6 TREASURER GOLDBERG: Great. Okay.

7 I would seek a motion for approval of a
8 commitment of up to 80 million to Insight Venture
9 Partners X, that the PRIM Board approve the
10 Investment Committee's recommendation to approve a
11 commitment of up to 80 million to Insight Venture
12 Partners X as described in Appendix D of the
13 expanded agenda, and further to authorize the
14 executive director to take all actions necessary
15 to effectuate this vote.

16 Is there a motion?

17 MR. BROUSSEAU: So moved.

18 TREASURER GOLDBERG: Second?

19 MR. SHANLEY: Second.

20 MR. BAILEY: Michael McGirr.

21 MR. MCGIRR: We're on page 19. Another
22 existing investment manager for PRIM, another
23 re-up candidate. PRIM has invested in nine prior
24 Insight funds going back to 2005.

25 This is a growth equity investment, and

1 we believe that Insight has one of the strongest
2 teams in this area, 54 investment professionals
3 and a captive internal consulting team, all
4 dedicated to growth equity investments in
5 software, software-enabled services and Internet
6 companies with established momentum and a
7 potential for growth and revenue and/or operating
8 profits.

9 What we like about Insight is with all
10 the growth equity firms that we're looking for
11 really strong growth capabilities. The top line
12 earnings growth rates are very, very strong in
13 these software companies.

14 We think they've got a highly talented
15 and focused organization, 54 investment
16 professionals all dedicated to this area of
17 software. And this firm has been investing
18 together in software for the past 20 years
19 together, across multiple market cycles.

20 Happy to take any questions or comments.

21 TREASURER GOLDBERG: Questions for Michael?

22 Seeing none, we have a motion. We have
23 a second.

24 All those in favor?

25 BOARD MEMBERS: Aye.

1 TREASURER GOLDBERG: Any opposed?

2 Hearing none, it passes unanimously.

3 (VOTED: To approve the Investment
4 Committee's recommendation to approve a
5 commitment of up to \$80 million to
6 Insight Venture Partners X as described
7 in Appendix D of the expanded agenda,
8 and further to authorize the executive
9 director to take all actions necessary
10 to effectuate this vote.)

11 TREASURER GOLDBERG: Okay. Next. I would
12 seek approval of a commitment of up to 50 million
13 euros to Waterland Private Equity Fund VII.
14 Motion that the PRIM Board approve the Investment
15 Committee's recommendation to approve the
16 commitment of up to 50 million euros to Waterland
17 Private Equity Fund VII as described in Appendix E
18 of the expanded agenda, and further to authorize
19 the executive director to take all actions
20 necessary to effectuate this vote.

21 Is there a motion?

22 MR. BROUSSEAU: So moved.

23 TREASURER GOLDBERG: Second?

24 MR. HEARTY: Second.

25 TREASURER GOLDBERG: Who's doing this one?

 MR. BAILEY: I'm doing this one. Thank you.

 This is a new firm for us, but a firm
that began investing in 1999 and has managed six

1 successful prior funds. And we reached out and
2 found this firm. This is part of our initiative
3 to identify firms that invest in smaller buyouts.
4 So we're proud of the sourcing story here.

5 It's a leader in an attractive region
6 for private equity, based on our research. They
7 began investing in the Netherlands years ago and
8 slowly expanded into Belgium and Germany. And
9 those regions have been attractive, and we're a
10 bit underrepresented there, frankly.

11 And we've seen them as having a real
12 persistent skill at managing a portfolio with
13 additional upsides compared to some of their
14 peers. And also a very highly resourced firm for
15 the size of capital they're managing with 46
16 investment professionals who focus on a repeatable
17 strategy that I mentioned has been successful and
18 our research shows is tough for others to
19 replicate.

20 So based on those strengths, we're
21 recommending a commitment of up to 50 million
22 euros to Waterland VII.

23 I'm happy to take any questions or
24 comments.

25 TREASURER GOLDBERG: Any questions for

1 Michael?

2 Seeing none, we have a motion. We have
3 a second.

4 All those in favor?

5 BOARD MEMBERS: Aye.

6 TREASURER GOLDBERG: Any opposed? Passes
7 unanimously.

8 (VOTED: To approve the Investment
9 Committee's recommendation to approve
10 the commitment of up to 50 million euros
11 to Waterland Private Equity Fund VII as
12 described in Appendix E of the expanded
13 agenda, and further to authorize the
14 executive director to take all actions
15 necessary to effectuate this vote.)

16 MR. BAILEY: Did we vote on the co-investment
17 voting item?

18 TREASURER GOLDBERG: No. It's actually a
19 voting item so we have it.

20 Okay. I would seek approval of an
21 addition of Waterland Private Equity Investment to
22 the co-investment bench. I would seek a motion
23 that the PRIM Board approve the Investment
24 Committee's recommendation to approve the addition
25 of Waterland Private Equity Investments to the
board-approved bench of co-investment managers
pursuant to the co-investment program approved by
the board in February of 2014, and further to

1 authorize the executive director to take all
2 actions necessary to effectuate this vote.

3 Is there a motion?

4 MR. NAUGHTON: So moved.

5 TREASURER GOLDBERG: Second?

6 MR. BROUSSEAU: Second.

7 TREASURER GOLDBERG: All those in favor?

8 BOARD MEMBERS: Aye.

9 TREASURER GOLDBERG: Any opposed?

10 Seeing none, I don't think we need a
11 discussion on that.

12 (VOTED: To approve the Investment
13 Committee's recommendation to approve
14 the addition of Waterland Private Equity
15 Investments to the board-approved bench
16 of co-investment managers pursuant to
17 the co-investment program approved by
18 the board in February of 2014, and
19 further to authorize the executive
20 director to take all actions necessary
21 to effectuate this vote.)

22 MR. BAILEY: Thanks.

23 TREASURER GOLDBERG: Certainly any questions,
24 but I doubt there are.

25 Okay. Thank you.

Okay. So CVI. I am seeking approval of
a commitment of up to 200 million to CVI Credit
Value Fund IV, LP.

Motion. I seek a motion that the PRIM

1 Board approve the Investment Committee's
2 recommendation to approve a commitment of up to
3 200 million to CVI Credit Value Fund IV as
4 described in Appendix F of the expanded agenda,
5 and further to authorize the executive director to
6 take all actions necessary to effectuate this
7 vote.

8 Is there a motion?

9 MR. BROUSSEAU: So moved.

10 TREASURER GOLDBERG: Is there a second?

11 MR. HEARTY: Second.

12 MR. BAILEY: And Michael McGirr is going to
13 review this.

14 TREASURER GOLDBERG: Trying to mix it up.

15 MR. BAILEY: Exactly.

16 MR. MCGIRR: Credit Value Fund IV will be the
17 second investment that we have considered with
18 CarVal. We first invested with CarVal in 2015 in
19 their Credit Value Fund III.

20 The senior investment professionals of
21 this firm are very well-tenured and have a lot of
22 experience working together. The investment that
23 we made with them in Fund III is meeting our
24 expectations, and we think Fund IV is a good
25 opportunity for the distressed debt portfolio.

1 CarVal's team focuses on a very broad
2 set of distressed and credit-intensive assets
3 globally, including corporate securities, loan
4 portfolios and special opportunities. They have
5 very strong capabilities in each area, and they
6 have the ability to rotate capital to the best
7 risk-adjusted returns as they see.

8 They also have the ability to source and
9 identify undervalued or mispriced investments.
10 And that's what's generating, combined with their
11 capital allocation, generating their very strong
12 returns.

13 Happy to take any questions or comments.

14 TREASURER GOLDBERG: Are there any questions?
15 Comments?

16 We have a motion. We have a second.

17 All those in favor?

18 BOARD MEMBERS: Aye.

19 TREASURER GOLDBERG: Any opposed?

20 Seeing none, the motion carries.

21 (VOTED: To approve the Investment
22 Committee's recommendation to approve a
23 commitment of up to \$200 million to CVI
24 Credit Value Fund IV as described in
25 Appendix F of the expanded agenda, and
further to authorize the executive
director to take all actions necessary
to effectuate this vote is there a
motion.)

1 TREASURER GOLDBERG: Now, that is it.

2 Tim. How's my timberland?

3 MR. SCHLITZER: Pretty good, actually.

4 TREASURER GOLDBERG: Is it growing?

5 MALE SPEAKER: It's always growing.

6 MR. SCHLITZER: That's the beauty.

7 TREASURER GOLDBERG: Is anybody buying cherry
8 furniture?

9 MR. SCHLITZER: You know, cherry prices are
10 up finally. So it's been, knock on wood -- no pun
11 intended.

12 I didn't mean to do that. I'll hear
13 about that from my colleagues later.

14 TREASURER GOLDBERG: Yes, you will. And I
15 probably won't forget that line.

16 MR. SCHLITZER: So I'll be efficient here.
17 Thank you for the support on the consent agenda
18 item. Appreciate that very much.

19 So I'm going to start briefly with a
20 couple of accomplishments from the prior year, a
21 couple points on performance, and we'll move on.

22 So I think good year overall. Michael
23 mentioned our first direct real estate
24 acquisition. So off and running there, and we're
25 working through Project SAVE to build a little bit

1 more of a business around that. So look forward
2 to that.

3 Lots of activity on the real estate
4 financing side. \$500 million refinanced in a bank
5 term loan facility. We added \$250 million in new
6 debt financing through an internal facility.
7 Notable that we added a hundred million in project
8 level financing on one of our development projects
9 and saved \$500,000 by doing that on more of a
10 direct basis.

11 And then one other item of note, more at
12 the investment level. We had our first co-
13 investment in many years and certainly during the
14 Project SAVE era, realized that investment, which
15 was One Kendall Square in Cambridge, at a multiple
16 of three times equity during this past year, and
17 fee savings to PRIM of \$5.5 million. So that was
18 great.

19 I also want to thank my team. We have a
20 great team on the real estate and timberland side.
21 And there's a lot of blocking and tackling that
22 goes on in these separate accounts day to day, a
23 lot of work there. And they are always up for
24 stepping up and working on other projects and
25 ideas and all that. So things are working, and

1 it's great to see.

2 Getting into the portfolio, on the
3 allocation side in real estate, we're at
4 \$6 billion. We are underallocated. We're at
5 9.1 percent of the PRIT Fund.

6 As mentioned in the 2017 investment
7 plan, we were planning to sell this year. So
8 there's denominator effect, but there's also
9 disposition there leading to that gap.

10 And I think that the RFP that we're
11 about to do will be a big help because that's
12 going to be a significant allocation of capital in
13 finding ways to redeploy that capital as it's
14 coming in.

15 On the performance side, a good year at
16 6.8 percent, although certainly compared to other
17 asset classes, we are seeing that real estate is
18 moderating, and this was also expected. It's late
19 cycle, and we are not seeing a lot of appreciation
20 in these properties right now, but we continue to
21 have a great portfolio and good cash flow.

22 Non-core private was very strong at
23 17.5 percent. That's what drove our private
24 return, which was 8.6 percent so mostly core, but
25 a lot of the outperformance coming from the non-

1 core space, consistency and contribution across
2 our fund business and a lot of the direct
3 development projects as well, many of which are
4 now delivering, and that value has been created.
5 So happy to see that.

6 On the REIT side, definitely lower
7 returns there over the fiscal year, up
8 1.3 percent. That's 34 basis points above
9 benchmark.

10 I will note that a lot of that was
11 driven by a bad or a poor fourth quarter last
12 year. Year to date, the global REIT index is up
13 about 8 percent so some recovery there.

14 And then just to give you a quarterly
15 data point, real estate's up 2.4 percent in the
16 second quarter. That's 54 basis points above
17 benchmark.

18 A few points on timber. The portfolio
19 returned 8.3 percent for the year. That's
20 470 basis points above benchmark. That's
21 increasing to 5 percent when we unlag the
22 benchmark. So we always see a lot of noise on the
23 relative comparison. We see it on the downside,
24 and we see it on upside. We happen to be seeing
25 it on the upside right now.

1 I will tell you, though, that we have
2 seen some pretty consistent outperformance, not
3 just in Campbell's U.S. portfolio, but also in
4 Australia. We wrote up the Australian investment
5 26 percent year-over-year on June 30, and I think
6 all for good reasons.

7 We saw discount rate compression, but I
8 think that was due to improvement in the quality
9 of the business, and also export assumptions. And
10 then just the amounts that they're harvesting,
11 which I also think is a result of good management
12 of that business.

13 So good results there, and I'm going to
14 leave it at that. I'm happy to answer any
15 questions.

16 TREASURER GOLDBERG: Any questions for Tim?

17 Thank you for the update.

18 Finance and admin report. David.

19 MR. GURTZ: Just a couple of housekeeping
20 items, more or less. This should be pretty short.

21 Appendix G is the 2018 proposed board
22 and committee meeting schedule calendar for next
23 year. Please take a look at that. Let myself
24 know or Grace know or Steffanny know if you have
25 any conflicts. If we have any conflicts, we'll

1 reach out to individual committee members or board
2 members that are impacted and try to rearrange a
3 calendar that meets everybody's calendar.

4 We'll be bringing back a sort of
5 finalized version of this calendar at the next
6 round of meetings to vote on, but this is to just
7 let you know and let us know if there are any
8 conflicts that you can think of.

9 So that's it for that one.

10 MR. BROUSSEAU: David, can you give the board
11 the update on the board education retreat because
12 we won't be meeting. The next board meeting is in
13 November, the 25th, in terms of --

14 MR. GURTZ: So that's next year's date.

15 But this year's date is the 26th of
16 September. We've got a place identified. It's
17 right down the street from here.

18 And we're going to be sending out an
19 agenda. It's really only designed for board
20 members at this point in time.

21 Actually, good segue into the next
22 topic, if you don't mind, Bob, is closing the loop
23 on the recommendations from last year's board
24 self-evaluation.

25 So at Appendix H is the recommendations

1 from the board self-evaluation or in a sense PRIM
2 staff's action items based upon the board's self-
3 evaluation.

4 As a reminder, Cortex administered the
5 board self-evaluation earlier this year, and then
6 Cortex presented its summary of findings at the
7 Admin and Audit Committee meeting back in May.
8 And then the board meeting also back in May
9 discussed the results of the Cortex findings.

10 And so based on those discussions and
11 Cortex results at Appendix H are four essentially
12 PRIM staff action items that we are taking away
13 from the board self-evaluation process.

14 Number 1 is to review the board
15 governance manual. Obviously we were going to do
16 that anyway, but in particular, we're asking
17 Cortex to provide best practice recommendations
18 regarding committee composition, including the
19 number of committee members, term lengths and
20 appointment process.

21 We're also going to ask Cortex to
22 provide best practice recommendations on ways to
23 encourage the board to focus on longer term issues
24 and less time on quite honestly manager and vendor
25 selections.

1 MR. BROUSSEAU: A couple of those were
2 mentioned in Michael's evaluation to zero in on.

3 MR. GURTZ: Absolutely right.

4 Regarding the Open Meeting Law, PRIM
5 staff is encouraging any board or committee member
6 that has questions to have a discussion with our
7 general counsel, Chris Supple. So feel free to
8 give him a call, and he can walk you through the
9 law.

10 Number 3, the board and committee
11 packages. As always, we try to make sure that we
12 have the right amount of information to you, not
13 too little, not too much, but there were comments
14 that try to incorporate more of the committee
15 discussion into our board packages, so we're going
16 to work to do that. Whether we can do it, whether
17 in written form or at least verbally, we're going
18 to shoot to do that.

19 And then as always, at least it's been
20 this way the last couple years, we're looking at
21 paperless information to the committee members and
22 board members.

23 And then last but not least, this is,
24 Bob, what you were just talking about, the board
25 education retreat. So there's a couple of topics

1 that we're noodling on. None of this is by any
2 means definitive at this point, but we've
3 identified a few topics that we think are most
4 relevant and interesting to the board from an
5 educational perspective, one being factor-based
6 investing. The second one is board's role as
7 fiduciaries when it comes to ESG goals and
8 objectives. And then the last one might be the
9 private equity investment process, sort of a
10 deeper dive on Mike Bailey's team and how they
11 select managers.

12 So we're probably not going to highlight
13 all three of those. I think we're shooting for an
14 agenda that starts around 9:30 and goes through
15 lunch. And we don't want to overload it with too
16 many agenda items to allow enough discussion of
17 these topics. And we're looking for outside
18 speakers to come in and discuss these and educate
19 the board members on these particular topics.

20 So that's the agenda that we have.
21 Again, we're not finalizing it yet, but certainly
22 in the next week or two, probably by around Labor
23 Day, we're going to finalize the agenda and shoot
24 it out to you guys.

25 MR. BROUSSEAU: Where are we having it at?

1 MR. GURTZ: NEPC's office, which is literally
2 down the street here.

3 MR. TROTSKY: 200 State.

4 MR. GURTZ: I think that's the address.
5 Where the Legal Sea Foods restaurant is, that's
6 their building.

7 MR. TROTSKY: No. Didn't they move?

8 MR. HEARTY: No. They're in there. Where
9 the ferries run.

10 TREASURER GOLDBERG: All the way down there,
11 across the way.

12 MR. HEARTY: Eaton Vance building.

13 MR. TROTSKY: It was their space.

14 MR. BROUSSEAU: That's almost down where our
15 first office was.

16 MR. HEARTY: A little further down.

17 MR. BROUSSEAU: A little further down. I
18 remember going way up there.

19 MR. SHANLEY: Across the street.

20 MR. BROUSSEAU: When Paul Quirk was in your
21 position, in Mike's position.

22 The fiduciaries, are you going to have
23 anybody there? I think there are a lot of issues
24 that have been raised about the board's roles as
25 fiduciaries, especially in bringing issues up at

1 board meetings that seems protective. We have
2 more and more of that in the last couple of years,
3 and I think we need some guidance of people who
4 are so-called experts in the field. The legal --

5 MR. SUPPLE: You're spot on. That's exactly
6 what we're doing. I'm talking with some folks,
7 and we're going to select somebody to come and
8 present on the topic.

9 TREASURER GOLDBERG: There are a couple of
10 things, different things. I don't know if we have
11 enough time to go into all of them.

12 The presentation that I had at the
13 National Institute and the new 2017 decisions are
14 changing the standard for what will be your
15 fiduciary duty with respect to plaintiffs'
16 actions. And so many of the funds are moving very
17 rapidly into taking additional actions against bad
18 governance, that the standard is changing. And
19 some of the treasurers highly recommended that we
20 become more aggressive in terms of plaintiffs'
21 actions.

22 The other fiduciary issues are around
23 other good governance. So if we could get any one
24 of the people who presented at the National
25 Institute -- and I think they're in New York. So

1 maybe they'd be willing to come up. It was a
2 terrifically well-done --

3 What is the date of our retreat?

4 MR. BROUSSEAU: 26th.

5 TREASURER GOLDBERG: That's too bad because
6 the treasurer of Tennessee will be here the week
7 before, and he was superb. I don't know if we can
8 use remote, whether we could do any kind of audio
9 and visual, video thing, where it was interactive.

10 And then the other thing is on all the
11 good governance issues with respect to filing
12 shareholder actions, I think is another fiduciary
13 duty that people are looking at big time.

14 MR. SUPPLE: Maybe what I might suggest is if
15 people want to communicate to me topics like that
16 that you'd like to have that we make sure we
17 address --

18 TREASURER GOLDBERG: I think that Sarah,
19 myself and Sean can powwow on all the stuff that I
20 picked up two weeks ago at the institute, and then
21 maybe recommend some folks that maybe we can
22 appeal to to come and present to us.

23 MR. SUPPLE: And we know the Tennessee folks
24 pretty well because they represented a preferred
25 class in the Fannie Mae case where we represented

1 the common share class, so we spent a lot of time
2 with them.

3 TREASURER GOLDBERG: Dave Lillard is
4 becoming -- but you see, it's the 2017 -- I was
5 texting Sarah from the event saying wow. There's
6 a change in case law now about this, what is the
7 standard.

8 And we're a little behind on that. So I
9 think we've got to become more aggressive on terms
10 of what is perceived as the standard.

11 MR. BROUSSEAU: A lot of issues, Madam Chair,
12 that I know Dennis and I have faced have been on
13 the issue of investing with managers who actually
14 take positions on issues that are can I say
15 injurious to the interests of beneficiaries.

16 They do not support defined benefit
17 pension plans. They may invest in energies --
18 charter schools. I have a question out on that
19 that has been raised to me. And our money is
20 going there.

21 And people say, "Why are you investing
22 with these people who are doing things" --

23 TREASURER GOLDBERG: I think there was one
24 isolated case. It was one isolated case. I don't
25 think that's an issue now.

1 MR. NAUGHTON: Oh, it is.

2 MR. BROUSSEAU: Dennis and I have heard a lot
3 of --

4 MR. NAUGHTON: It is an issue.

5 TREASURER GOLDBERG: Was it --

6 MR. NAUGHTON: There are major hedge fund
7 investors behind charter school movement. Just
8 take Newark as an example.

9 I mean I think the issue for Bob and for
10 me is --

11 TREASURER GOLDBERG: But that was their
12 personal. It wasn't the hedge fund itself that
13 invested. Right?

14 MR. NAUGHTON: No. That's right. As far as
15 I know, what you're saying is correct.

16 But nonetheless, what they were
17 investing had to come from somewhere, didn't it?

18 TREASURER GOLDBERG: Well, it's interesting,
19 though, that we're -- Eric will support this. We
20 are moving away from traditional hedgies.

21 MR. NAUGHTON: But I'm just taking that as an
22 example. It is not a *de minimis* kind of thing.
23 It's a rampant kind of thing within the investment
24 community. And some of the biggest names in
25 technology have been involved in doing this sort

1 of thing.

2 And it matters to our constituents.
3 Whether or not it matters to everyone around this
4 table, it matters to the people who possess the
5 largest nut in the fund.

6 TREASURER GOLDBERG: Gotcha.

7 Okay. Let's see. We stopped you in the
8 middle. You went Open Meeting Law, but we never
9 got to the board and committee packages.

10 And just around this table -- I mean we
11 are missing three people. I think the issue is if
12 we're going to move to a paperless process. I
13 think that's the basic issue. Are we going to go
14 to iPads?

15 Now, I mentioned before we did it at the
16 retirement board when Ralph White was still on
17 there. We supplied him paper because he wasn't
18 comfortable with that.

19 Now, I know this is good for the
20 timberland business, but --

21 MR. BROUSSEAU: Don't bite the hand that's
22 feeding you.

23 TREASURER GOLDBERG: But it's heavy. I have
24 to get someone to meet me to help me carry it in.

25 MR. GURTZ: So let us know.

1 TREASURER GOLDBERG: It's costly to do this.
2 I'm not saying it's perfect. Sometimes these
3 iPads screw me up.

4 And the issue with the retirement board
5 ones is they only work on wifi. So if you're
6 somewhere where you don't have wifi and you want
7 to download them, you can't. So they don't come
8 through on Verizon or -- so I think that's
9 something to consider.

10 MR. NAUGHTON: Also there's a security aspect
11 to that.

12 TREASURER GOLDBERG: No. These are secured.
13 It is so hard -- trust me. I've gotten kicked out
14 a bazillion times. BoardEffect is one of the
15 companies. What are the other ones?

16 MR. TROTSKY: BoardVantage.

17 TREASURER GOLDBERG: BoardVantage, I hear is
18 outnuzzling BoardEffect.

19 MR. TROTSKY: It's outstanding. The CFA
20 Institute uses it, and it's great.

21 TREASURER GOLDBERG: I'm a director at
22 Affiliated Physicians Group. Medical is very,
23 very protected. And they use BoardEffect, and I
24 have a hell of a time getting into my documents.

25 MR. GURTZ: So we'll bring some solutions,

1 and whether you guys are interested or not, we'll
2 discuss it then.

3 TREASURER GOLDBERG: And we can transition.

4 MR. GURTZ: Yes. It doesn't have to be
5 everybody.

6 TREASURER GOLDBERG: You always can have some
7 paper around.

8 MR. GURTZ: So these are nonvoting items, but
9 we appreciate the feedback, and we'll go from
10 there.

11 TREASURER GOLDBERG: I think that's the
12 meeting.

13 MR. TROTSKY: Do you have an update, Chris?

14 MR. SUPPLE: Yes. I just have one lightning
15 quick update on legislative matters, but before I
16 do that, I was really hoping we could return to
17 item III.B so I could offer some comments on --

18 MR. BROUSSEAU: I'll give you --

19 TREASURER GOLDBERG: Such a nice guy.

20 MR. SUPPLE: But seriously, one thing I think
21 that was implicit in a lot of those comments that
22 I just want to make sure we put on the record,
23 Madam Treasurer, is that you also have a great
24 staff, and we enjoy working with your staff.

25 When the phone rings and it's coming

1 from the Treasury, we are happy to pick it up.
2 And we don't take that for granted, and we have a
3 great working relationship.

4 MR. TROTSKY: We don't flinch anymore.

5 MR. BROUSSEAU: You used to flinch, Jim.

6 MR. HEARTY: I wouldn't answer the phone.

7 TREASURER GOLDBERG: Excuse me. He flinched
8 before I got here.

9 MR. BROUSSEAU: He didn't answer the phone.

10 TREASURER GOLDBERG: He said, "We must have a
11 bad connection. I can't hear you."

12 MR. SUPPLE: So I think everyone knows, it
13 was reported in the news, but just to make sure,
14 the budget that went to the governor's desk, I
15 guess this past July, had a provision in it that
16 would permit but not require the MBTA Retirement
17 Fund to invest its assets in the PRIT Fund.

18 So that's something that if they decide
19 they want to do it, the law has changed to permit
20 it. We're kind of on the sidelines, kind of, when
21 and if they're ready, let us know, but --

22 TREASURER GOLDBERG: I repeated that they are
23 welcome to, but we are not --

24 MR. HEARTY: Not soliciting.

25 MR. TROTSKY: Don't really want a client that

1 doesn't want to be with us.

2 MR. SUPPLE: And that's all I have. Thank
3 you.

4 TREASURER GOLDBERG: Okay. Meeting's
5 adjourned.

6 (VOTED: To approve the adjournment of
7 the August 15, 2017 board meeting at
8 11:41 a.m.)

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